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ABSTRACT

To examine the fiscal implications of reorganizing the Los Angeles (California) Unified School District (LAUSD) into smaller, independent districts, researchers compared LAUSD revenues and expenditures with those of the balance of the state and analyzed differences in expenditures per student within LAUSD. This report on their evaluation is organized into four parts. Part 1 analyzes the fiscal rationales in favor of redistricting. It tests whether LAUSD's political power brings it a disproportionate share of state K-12 funding and also examines efficiency issues, involving optimal district size, school underutilization and overcrowding, administration, and management and information systems. Part 2 looks at such reorganization implications as the distribution of assets, liabilities, and categorical and base revenues, and the costs of transition planning and implementation. LAUSD expenditure patterns are investigated in part 3, including geographic differences in expenditure variations, redistricting's effects on interdistrict inequalities, and the racial and ethnic implications of redistricting. Part 4 presents the researchers' conclusions; among them are that LAUSD operates as efficiently as other California districts and does not get a disproportionate share of state revenues and that there are large differences in expenditure per student within LAUSD, mainly attributable to difference in school size. (RW)

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FISCAL ISSUES CONCERNING THE REORGANIZATION OF LOS ANGELES UNIFIED SCHOOL DISTRICT

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May 10, 1982

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EXECUTIVE SUMMARY

Under subcontract to the Evaluation and Training Institute (ETI), MPR Associates analyzed the fiscal implications of reorganizing the Los Angeles Unified School District (LAUSD), part of a larger study ETI conducted for the Office of the Legislative Analyst. Our work concentrated on comparing revenues and expenditures for LAUSD relative to the balance of state and on analyzing differences in expenditures per student among schools within the district. Our major findings were the following:

1. Relative to the balance of the state, on the average LAUSD operates about as efficiently as other school districts in the state; there is little evidence that LAUSD has been able to use its concentrated political power to secure a disproportionate share of state revenues for education, and when costs per ADA are compared districtwide, they are about equal to average costs per ADA in the balance of state.

2. Within LAUSD and excluding expenditures of all special purpose funds (i.e., special education, Title I, etc.), there are great differences in expenditures per ADA among schools, ranging from $911 to $2,486 per ADA for elementary schools, $1,214 to $2,701 for junior high schools, and $1,087 to $1,918 for senior high schools in 1980-81.

3. These differences in expenditures per ADA are largely attributable to differences in school size, highest in schools with fewer than 300 ADA and lowest in schools with over 900 ADA.

4. The district is scrupulously fair in allocating teachers for the regular K-12 program, maintaining equal teacher/student ratios in each of district's schools; the expenditure differences, therefore, reflect inefficient school administration, maintenance, and other factors associated with small schools rather than inequality in the

delivery of instruction.

5. School size, therefore, has much greater implications for efficiency than district size, although it is likely that a large district is better able to tolerate the inefficiencies of small schools.

6. Within LAUSD, the costs of inefficiency are distributed unevenly; high cost schools are located mainly in West Los Angeles and the San Fernando Valley, predominantly white areas, and low cost schools are located downtown in predominantly minority areas. School closing and consolidation would raise the level of instructional revenues for all schools within the district, with greater benefits accruing in overcrowded minority schools.

In our view, the large disparities within LAUSD in expenditures per ADA constitute a serious problem. If small schools deliver more effective education, then there are serious problems of unequal access within LAUSD. On the other hand, if the higher costs of small schools cannot be justified in terms of greater effectiveness, there are serious problems of inefficiency, with the costs of inefficiency borne unevenly throughout the district. Because new districts must have equal base revenue limits, breaking up LAUSD into smaller autonomous school districts would eliminate most of these disparities and redistribute resources from areas with small, underutilized schools to areas with overcrowded schools. However, redistricting raises problems that, on the whole, may make pursuing such a strategy undesirable.

Consequently, it may be more appropriate to consider approaches that would directly address the inefficiencies of small, underutilized schools, not only within LAUSD but

also in other districts throughout the state. Specifically, state policy should concentrate on answering the following questions:

1. How much more costly are schools with fewer than 300 ADA?

2. What are the major sources of high costs in small schools--e.g., administration, maintenance, small classes, seniority differences, etc.?

3. Can higher costs per student in small schools be justified in terms of higher educational quality or evidence of greater effectiveness?

4. Are there ways to reduce costs per student in small schools without affecting educational effectiveness?

5. What opportunities exist for consolidating small schools?

6. What are alternative uses for school buildings and school sites?

7. How can state policy encourage more efficient utilization of school facilities to the benefit of the instructional program?

FOREWARD

This study was done as part of a larger study conducted by the Evaluation and Training Institute (ETI) of Los Angeles. The California State Legislature, through the Office of the Legislative Analyst, contracted with ETI to conduct a study of the structure and organization of the Los Angeles Unified School District. Some legislators have been concerned that LAUSD is too large, and that its large size has led to inefficiency and to unresponsiveness to the needs of those it serves. They were therefore interested in exploring alternative organizational arrangements, including both internal reorganization and redistricting, meaning breaking LAUSD up into smaller, independent districts. ETI contracted with MPR Associates to examine the fiscal issues concerning the reorganization of LAUSD.

The criteria used by ETI to evaluate various alternatives included quality of education, fiscal efficiency, fiscal equity, constitutionality, community access and involvement, and feasibility of implementation. Our study of the fiscal issues suggests that redistricting might well lead to increased efficiency and equity. However, these benefits may not outweigh other costs associated with redistricting.

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Among legislators and staff in Sacramento, there is widespread concern about the Los Angles Unified School District (LAUSD). Five times the size of the state's second largest district (San Diego) and nearly ten times the size of the state's third largest district (Long Beach), LAUSD had total revenues of over $1.5 billion in 1980-81, or approximately 15 percent of total statewide revenues for K-12 education. When only one of the state's 1,040 school districts accounts for such a large proportion of public funds for elementary and secondary education, it is inevitable that its fiscal affairs come under close scrutiny in Sacramento. A reduction of only 1 percent in LAUSD's annual revenues would provide enough money to completely fund the state's Miller-Unruh Reading Program. A reduction of 10 percent would fund the entire School Improvement Program. Obviously, a local budget the size of LAUSD's is highly visible and a prime target for those looking for "excess" revenues.

Whether LAUSD actually receives an "excessive" amount of money for K-12 education will be examined below; however, among numerous legislators and staff people in Sacramento, there is a strong perception that LAUSD receives more than its fair share of public funds. This results, it is charged, from the concentration of political power the district enjoys in Sacramento. Of the 120 members in the state legislature, 33 represent parts of LAUSD. Additionally, United Teachers of Los Angeles (UTLA) wields substantial poliitical and financial clout among an even broader representation of the legislature. Therefore, it is believed by many that reorganizing the district into a number of smaller independent entities would reduce the district's political strength and free some state money for other districts or for purposes other than education.

Aside from the question of whether the district receives a disproportionate share of state funds, there is also widespread feeling in Sacramento that regardless of the amount of money received by LAUSD, these funds are spent inefficiently. Many of those interviewed in the course of this study voiced concerns about excessive administration, diversion of special purpose funds into the general purpose program or into administration, inefficient utilization of physical facilities, and cumbersome and ineffective management of the district's operations. Most felt that LAUSD was "simply too big," and while no one could confidently define an optimal size for the district, many felt that there is such a thing as an optimal size for school districts and that whatever that size is, LAUSD exceeds it many times over. In other words, many felt strongly that LAUSD suffered from diseconomies of scale and

that substantial savings could be achieved by breaking the district up into smaller, independent units.

In the report that follows, we analyze many of these concerns in detail. In Section I, we consider whether there is a strong fiscal justification for breaking up LAUSD into smaller, independent school districts. LAUSD's share of total statewide revenues for K-12 education is analyzed, and the issue of whether this share is disproportionately large is considered. Additionally, issues concerning economies of scale and the general topic of the "optimal" size of a school district are discussed. Finally, we consider problems of overcrowding and underutilization of schools and also examine the magnitude of the district's administrative staff; specifically, we examine whether such problems might be alleviated by breaking the district up into smaller jurisdictions.

In Section II, we consider the reorganization of LAUSD from a different perspective. Regardless of whether there is a clear economic justification for reorganization, we simply assume that reorganization is desirable and consider the fiscal implications. Although several alternatives for reorganization are discussed, we concentrate on analyzing the fiscal implications of redistricting LAUSD, either by dividing the district into smaller, independent school districts or by transferring territory to contiguous districts. The discussion concentrates on three major concerns: 1) establishing revenue limits for newly formed districts, 2) dividing the district's assets and liabilities among the new jurisdictions, and 3) identifying some of the costs of making the transition from the exisiting structure to some new form.

In Section III, using data for the 1980-81 school year, we analyze the fiscal problems that must be addressed if ten independent districts were to be created out of the ten administrative areas that now constitute sub-districts within LAUSD. We also examine possibilities for creating a larger number of districts with fewer schools.

I. ANALYZING THE FISCAL RATIONALE FOR REDISTRICTING

In this section, we examine some of the fiscal arguments that have been advanced as reasons for redistricting LAUSD. When we refer to "redistricting," we mean one of two general approaches to reorganizing LAUSD: 1)carving out of the existing district some number of new, wholly independent school districts or 2) transferring parts of the present district to contiguous school districts that now border LAUSD. These are the primary options that most legislators and staff people advance for achieving more efficient use of the resources allocated to LAUSD. Two major issues are considered: 1) whether there is evidence indicating that LAUSD's political power in the legislature results in the district securing more than a proportionate share of the public resources allocated to K-12 education and 2) whether redistricting is likely to lead to significant gains in the efficient use of those resources.

A. State Politics and the Level of Funding for LAUSD

As noted at the outset, there are strong feelings among many legislators and staff in Sacramento that LAUSD enjoys a disproportionate share of the state resources devoted to elementary and secondary education. A number of different concerns underlie these feelings. Thus, from the perspective of some representatives of rural and suburban areas, LAUSD is the major beneficiary of a "pro urban bias" in most state policy dominated by representatives of the state's eight largest cities. Among some urban legislators, there is resentment of LAUSD's unique political clout. An especially sore point is the large amount of money the district receives for court-mandated costs of desegregation. The legislation authorizing state reimbursement of these costs affects only costs of court orders handed down after 1977; consequently, districts that have been pursuing desegregation for a number of years are ineligible for state aid and must bear the costs of desegregation out of general purpose revenues. Still other legislators and staff, while not subscribing to the general theory of urban bias or overt political manipulation, see LAUSD simply as a district that is out of control and unmanageable.

Does LAUSD receive a disproportionate share of state resources? The question is deceptively difficult to answer, for it depends on what aspects of funding one considers and on what one uses as the basis for comparison. For purposes of this study we performed several types of calculations. First, we compared LAUSD's share of various sources of revenue with its share of statewide average daily attendance (ADA) and students with special needs. Second, we examined revenues per ADA and per student enrolled (ENR) and compared figures for LAUSD with averages for the rest of the state. Finally, we analyzed growth in revenues per

ADA from 1976-77 to 1979-80, comparing rates for LAUSD with those for the rest of the state.

Table 1 displays for Fiscal Year 1979-80 revenues by source for LAUSD and the state as a whole. Column 3 of the table lists LAUSD's share of each source of revenue. In 1979-80, K-12 ADA in LAUSD constituted 13.2 percent of statewide total K-12 ADA. K-12 enrollment constituted 13.3 percent of the statewide total. Relative to these proportions, did LAUSD receive a disproportionately large share of state resources? With respect to general purpose revenues, which amounted to 13.8 percent of total state general purpose revenues for education, the answer is no, especially when one considers that these general purpose revenues include urban impact aid--which by legislative intent was meant to flow to urban districts in disproportionately large amounts--as well as an adjustment for declining enrollments. Turning to special purpose revenues, LAUSD receives 15.6 of various categoricals, excluding revenues for mandated costs. While this proportion exceeds LAUSD's proportion of K-12 ADA, it must be remembered that LAUSD has a disporportionately large number of students with special needs. Thus, in 1979-80 LAUSD had 24.1 percent of all students in the state identified as receiving support from Aid to Families with Dependent Children (AFDC), 31.6 percent of students classified as limited-English or non-English speaking (LES/NES), and 31.9 percent of those students eligibile for special education. Given the magnitude of these figures, one might argue the LAUSD receives a disproportionately small share of major special purpose revenues (excluding mandated costs).

Table 2 summarizes Table 1 in terms of revenues per ADA and per student enrolled (ENR). It compares figures for LAUSD with those for the balance of the state, i.e., excluding LAUSD. In general purpose revenues, LAUSD received $36 per ADA more in 1979-80 than the average for the rest of the state, and this difference is more than offset when one recalls that general purpose revenues include urban impact aid, which amounted to $57 per ADA for LAUSD in 1979-80. The district received $75 per ADA more than the average for special purpose reveues in all other districts; however, recalling that the district is responsible for serving nearly a third of the state's students with special needs, this figure is not excessive. Moreover, the range narrows for both figures when one examines revenues per ENR, reflecting LAUSD's greater problems with absenteeism.

TABLE 1
Revenues of LAUSD as a Percentage of Statewide Revenues
As Reported on Form No. J-41 for Fiscal Year 1979-80

	LAUSD (000's)	STATE (000's)	LAUSD AS % OF STATE
Principal State Apportionment (a)	$ 775,091	$5,125,957	15.1
Local Taxes (b)	138,247	1,502,993	9.2
Subtotal	913,338	6,628,950	13.8
Other General Purpose			
Federal Impact Aid	3,745	95,239	3.9
Urban Impact Aid (c)	30,523	62,100	49.2
Other (d)	41,355	591,493	7.0
Subtotal	75,623	748,832	10.1
General Purpose Subtotal	998,961	7,377,782	13.4
Mandated Costs	120,927	145,045	83.4
Other Special Purpose			
Federal	103,465	548,707	18.9
State Special Ed.	50,691	298,295	17.0
EDY/EIA	30,457	157,266	19.4
ECE/SIP	19,006	137,689	13.8
Voted Indebtedness	6,732	144,219	4.6
Other (e)	8,142	112,913	7.2
Subtotal	218,493	1,399,089	15.6
Special Purpose Subtotal	339,420	1,544,134	22.0
Total Revenue K-12	1,328,381	8,921,916	14.9
Adult Revenue	41,106	129,885	31.6
TOTAL REVENUE	$1,369,487	$9,051,801	15.1

(a) Excludes revenues for mandated costs and adult education.

(b) Excludes levies for voted indebtedness.

(c) Only $36,045,324 reported on J-41; correct figure substituted.

(d) Calculated as the residual of Total Income (exclusive of beginning balance -- E.D.P. No. 670, p. 12) less sum of special purpose revenue, mandated costs, principal state apportionment, local taxes, federal impact aid, urban impact aid, and adult education.

(e) The sum of lines 8617, 8621-23, 8631-34, 8636, and 8639 on Form J-41.

TABLE 2
Comparison of Revenues per ADA and ENR
Fiscal Year 1979-80

	per ADA(c)		per ENR(d)	
	LAUSD	STATE(e)	LAUSD	STATE
General Purpose Revenues	$1861	$1825	$1811	$1788
Special Purpose Revenues(a)	411	336	400	330
Mandated Cost Revenues	228	7	223	7
Total K-12 Revenues	2500	2168	2434	2125
Total Revenues(b)	2379	2118	--	--

(a) Excludes mandated cost revenue
(b) Includes adult ADA
(c) K-12 ADA (LAUSD--531,310; State--4,032,377)
Total ADA(LAUSD--575,649; State--4,201,737)
(d) K-12 ENR (LAUSD--545,871; State--4,119,511)

As is clear from both Tables 1 and 2, the one revenue source that overwhelmingly favors LAUSD is revenues that reimburse the districts for costs resulting from the orders of state and federal courts, mostly but not exclusively concerned with desegregation. LAUSD received over 80 percent, or approximately $121 million, of total state funds allocated for this purpose in 1979-80. This amounted to $228 per ADA in 1979-80 and pushed the district's total revenue per ADA to $2,379, about 10 percent more than the state average. Consequently, the history of this source of revenue is worth reviewing.

The mandated cost feature of state school finance arrangements began with "little" S.B. 90, sponsored by Senator Gregorio in 1977. The legislation authorized local school boards to levy additional local property taxes, in excess of the base revenue limit, to cover the costs of court-ordered programs. While LAUSD supported the bill, the district was by no means the prime initiator, nor did it lobby hard for the law. Indeed, the legislation was largely uncontroversial; it involved only local taxes and imposed no cost on the state. Shortly after the bill was passed and signed by the governor, LAUSD voted to levy an additional local property tax to cover the costs of the desegregation program worked out with the court for the 1978-79 school year.

That tax was never collected. In June 1978, the voters passed Proposition 13, reducing all property tax rates

(save those levied to fund voted indebtedness) to 1 percent of total assessed value. As a result, local financing of schools was virtually eliminated, and the state became responsible for most aspects of school finance, including the costs of court mandated actions. Consequently, LAUSD received $65.5 million in 1978-79 as reimbursement for mandated costs. Although the history of LAUSD's involvement in shaping the response of the legislature to Proposition 13 is a bit ambiguous, we can find little evidence that it amassed its political representatives, against the great opposition of other legislators, to ensure that the state would reimburse districts for court mandated costs. Rather, there seems to have been widespread recognition in the legislature that such costs were real, in excess of the regular program, and deserving of state support. The fact the costs must now be borne by the state rather than by the local district is more a result of Propostion 13 than the political power of LAUSD in Sacramento.

The sum has since grown, however, to more than $120 million, and herein lies the problem. In effect, without the local property tax to act as a brake on spending, S.B. 90 became a blank check for local school districts and the courts. With the state picking up the full tab, judges and district officials could devise desegregation plans without regard to costs. Given the rapid rise in mandated costs--not only in LAUSD but also in San Diego and elsewhere--it appears that many have paid little heed to costs. As a result, the legislature placed a ceiling on the amount of state money available for mandated costs beginning with the 1980-81 school year.

Although the funds received under the mandated cost provisions are used to cover the additional costs of desegregation, most of this money does find its way into the regular classroom in LAUSD. The bulk of the costs associated with desegregation in Los Angeles result from a reduction in class size at schools participating in the desegregation program. Of the $165 million that desegregation was estimated to cost in 1980-81, only about $38 million was related to transportation of pupils. The rest is for reductions in class size and administration of the desegregation plan. In some respects, therefore, the mandated cost funds are similar to a general increase in the district's base revenue limit, although the mandated cost revenues must be targeted on specific schools. Furthermore, because the total costs associated with desegregation for 1980-81 were not fully funded by the mandated cost provisions, the district has had to make up the difference from general purpose revenues, resulting in desegregation "encroaching" on general purpose revenues. Here again, this "encroachment" can be viewed in different ways. Some might argue that it represents real deterioration in the district's overall program; others might claim that it simply redistributes resources within the district from schools

not participating in the desegregation plan to those that are.

Turning to Table 3, tracing the growth in the revenues per K-12 ENR in LAUSD relative to growth in revenues per ENR for the balance of the state, several conclusions are apparent. From 1976-77 to 1979-80 LAUSD's general purpose revenue per ENR grew 28.4 percent from $1372 to $1762, compared to a 17.4 percent rate of growth for the balance of state; however, note that LAUSD's growth was from a much lower base, $1372 compared to $1523 for the balance of state. Most of the faster rate of growth is attributable to growth in urban impact aid and declining enrollment adjustments. Special purpose revenues per ENR (excluding mandated costs) grew 31.6 percent in LAUSD, compared to 80.3 percent in the balance of the state, although in this instance LAUSD's base, $323 per ENR, was much higher than the balance of state, $183. Total K-12 revenue per ENR in LAUSD grew 42.1 percent compared to 24.6 percent for the balance of the state. The difference is largely attributable to mandated cost revenues. If these are excluded, LAUSD's combined general and special purpose revenue grew 29.0 percent compared to 24.2 percent for the rest of the state.

To summarize, to the extent that LAUSD has fared better than other districts in securing state resources, this has resulted almost entirely because the district has been eligible for additional support for mandated costs. In no other aspect of educational financing does it appear that LAUSD has secured a disproportionate share of state resources. Given that the district played a relatively minor role in the passage of the enabling legislation but rather seems to have benefited from an historical quirk, it is difficult to conclude from the evidence that the district has been able to use its political clout in the legislature to gain favorable treatment.

Nevertheless, it is clear that the district has benefited greatly from being eligible for mandated cost assistance. Moreover, as is discussed in more detail in Section II, redistricting might eliminate the basis for allocating mandated cost revenues to LAUSD. On the other hand, if the newly formed districts remained under court order or were subjected to new court orders, it is possible that desegregation costs would increase, drawing resources away from other districts receiving mandated cost reimbursements or causing more "encroachment" into the general program.

Furthermore, to the extent that the legislature foresees mandated costs declining as the district gains experience with desegregation, it will probably be easier to maintain control over mandated costs if it can deal with a single centralized administration rather than the larger

TABLE 3
Changes in Revenues per K-12 ENR: 1976-77 to 1979-80

	LAUSD per ENR(a)			REST OF STATE per ENR(b)		
	1976-77	1979-80	% Chg.	1976-77	1979-80	% Chg.
General Purpose Revenue	$1372	$1762	28.4	$1523	$1788	17.4
Special Purpose Revenue	323	425	31.6	183	330	80.3
Federal	96	190	97.9	78	125	60.3
State Special Ed.	54	93	72.2	45	69	53.3
EDY/SIA	47	56	19.1	21	35	66.7
ECE/SIP	22	35	59.1	23	33	43.5
Other	104(c)	51	-51.0	15	68	53.3
Mandated Cost	---	221	---		7	---
Total K-12 Revenue	$1695	$2408	42.1	$1705	$2125	24.6

(a) LAUSD K-12 ENR: 1976-77 -- 601,429; 79-80 -- 545,871
(b) Rest of state K-12 ENR: 1976-77 -- 3,634,096; 79-80 -- 3,573,640
(c) Includes $44 per ADA for Earthquake Safety.

number that would result from redistricting. Similarly, it is probably easier to deal with a single administration if the legislature decides to phase out mandated cost assistance, either by allowing inflation to erode the cap or by gradually replacing the assistance with new local revenue raising powers.

To summarize, we do not find very strong evidence of an over concentration of political power in LAUSD siphoning educational resources away from the rest of the state. There may be sound arguments for breaking up LAUSD, but the prospect that this would free resources for other school districts is not one of them.

B. Efficiency Issues

There is a general perception that the district is simply too big to be efficient and that smaller districts are inherently more efficient. Therefore, many legislators and staff believe that breaking LAUSD up into smaller, independent districts would provide better education for the current level of spending or permit offering the current ~~level of education at~~ considerable savings.

In addition to these general concerns, several specific examples of inefficiency have been cited. In a report issued in June 1981, the Commission on California State Government Organization and Economy (also known as the "Little Hoover Commission") accused LAUSD of "inefficient facility utilization and maintenance practices, poor management systems and fiscal controls, and a lack of concern for the economical administration of the district as a whole." While LAUSD challenged many of the specific findings of the report by citing numerous factual errors, serious concern remains about how well LAUSD is managing its resources.

This section addresses two issues. First, given what is known about size and efficiency of school districts, is there any evidence that breaking up LAUSD into smaller, independent districts would be cost effective? Second, are the current problems LAUSD faces in managing its financial resources likely to be more amenable to solution if the district were reorganized?

1. Determining Optimal District Size. The rapid growth in educational expenditures over the past few decades has caused school administrators and policy makers to seek ways to increase the efficiency (that is, lower the cost per pupil) of schools and school districts. Based on the belief that size and efficiency are related, a frequent conclusion has been that efficiency can be promoted by altering school district size. Some foundation for this belief can be found in economic theory, which holds that the average cost curve of a firm is U-shaped. This means that as a very small firm increases in size, the average cost of a unit of output will steadily decrease, reach a minimum, and then start to increase again. "Optimal" size is therefore reached at the lowest point on the U-shaped curve. If this theory also holds for school districts, very small and very large districts will be the least efficient, and somewhere in between there will be an optimal size for school districts.

There are several reasons why very small districts are presumed to be inefficient. First, all districts require some basic minimum of administration--e.g., a superintendent, a principal, and clerical staff. If these "fixed costs" can be spread over a greater number of students,

then obviously total costs per student will decline until the district reaches a size that requires additional administrative personnel. Reduced administrative costs per student have been a major argument for consolidation of small districts in the past few decades. Second, it is often possible to get more for the dollar in larger districts. Larger districts are able to provide more specialized services than small ones. Certain approaches to saving time and money, such as computerized management information systems, are available only to districts large enough to provide the volume necessary to support them. Large districts can also hedge against uncertainty more easily. For example, they can stock fewer texts because enrollment patterns are more predictable.

At the other end of the spectrum, very large districts also may have higher costs per pupil because as any organization gets larger, more and more effort must be devoted to coordinating and managing the productive activities of the organization. To pay for these activities, either expenditures must be increased to maintain constant output, or output must be reduced. At some point, the additional costs of coordination and control outweigh the advantages of growth. Optimal size is passed, and costs per student rise.

There is widespread concern in Sacramento that LAUSD has long since grown past the point at which average cost is minimized, and that the proportion of resources going directly to the students is therefore declining. If so, this trend might be reversed by redistricting LAUSD to create a number of smaller districts closer to the optimal size. A critical issue, therefore, concerns what is known about the optimal size of school districts, and it is worth briefly reviewing the research done to date.

A large number of empirical studies have examined this subject but have thus far yielded inconclusive results. In a recent article in the Journal of Education Finance (Winter 1981), Fox reviewed over 30 studies that have attempted to measure the importance of size economies for schools and school districts, limiting his review to those studies that he considered conceptually and methodologically acceptable. He reports, that on the whole, these studies support the notion of the U-shaped average cost curve for schools and school districts, but that because of data problems and deficiencies in the underlying theories, exact economies of size are uncertain. In the studies reviewed, miniumum average cost sizes were found ranging from as little as 2000 students to more than 50,000 students, and some studies found no relationship at all between district size and expenditures per pupil.

The variation in the findings is not surprising. To determine the ranges over which economies and diseconomies of size exist, data on a large number of school districts of different sizes have to be compared to see if average cost varies with district size. This seems relatively straightforward, but to make valid comparisons the districts have to be similar in all other respects. That is, they must use the same inputs, the same production process, and have the same outputs. In practice, these conditions are hard to meet. School districts have different kinds of pupils and staffs, provide different kinds of services, and often provide the same services in different ways. If the school districts being compared differ in important respects other than size, it is not possible to attribute differences in average cost specifically to size.

It is unlikely that this problem can be overcome. There are good reasons to believe that large and small districts differ in systematic ways, making comparisons inherently very difficult. Larger districts tend to be in urban areas, where higher prices must be paid for material and personnel, where there are a disproportionate number of children needing special services, and where schools must purchase additional services to cope with problems such as vandalism. The higher costs per pupil in large school districts may therefore be due more to their urban nature than to their size. Breaking up LAUSD into smaller districts would not eliminate these urban characteristics; therefore, it cannot be assumed that smaller districts within Los Angeles would have costs similar to those of districts the same size but in different areas.

Another problem encountered in trying to identify economies of size is that there is no general agreement on what a unit of output of a school district is, and it is unlikely that a single one could be defined, as educators have multiple goals. The most commonly used output measure in studies of size economies is enrollment or average daily attendance. While these are reasonable measures of the quantity of pupils educated, they lack a quality dimension. Unless quality is held constant, outputs measured by enrollment or average daily attendance cannot be meaningfully compared.

Measuring inputs is also a problem. In the educational process, students supply important inputs in terms of their abilities and efforts, but reliable data on these are rarely available, so they are usually omitted. School-provided inputs have usually been measured by expenditures or by quantities or qualities of labor and capital, which are also hard to measure.

A further consideration is that large districts probably have more outputs and more different ones than small ones, and also more variety in student-provided in-

puts. This means that it is inherently harder to study the effects of large size on average cost than to study the effects of small size. In other words, it will be easier to document economies of size for small districts than diseconomies for large districts.

Even when researchers are able to select districts and measures to minimize these problems, formidable problems often arise when they try to collect comparable data from districts that use different expenditure categories, different time periods for reporting data, and so on. As Fox's review shows, how these problems are dealt with affects the empirical results, which in turn may lead to erroneous conclusions.

With these caveats on the state of research on economies associated with district size, what can be said about economies or diseconomies of scale in LAUSD? Table 3A displays for 1979-80 expenditures per ADA for administration, maintenance, and operations for LAUSD, Oakland, and the rest of the state. Expenditures per ADA for instructional, school, and district administration in LAUSD were $301 in LAUSD, compared to $274 for the rest of the state. District administration expenditures per ADA were almost 20 percent lower in LAUSD compared to the rest of the state, $88 per ADA versus $115 per ADA. School and instructional expenditures per ADA were about 30 percent higher, $208 per ADA in LAUSD compared to $159. This difference, in part, reflects the higher concentration in LAUSD of students with special needs who receive services from separately administered categorical programs (see discussion of number of administrators below).

Expenditures per ADA for maintenance are about 32 percent greater in LAUSD, $97 versus $73, reflecting both a higher concentration of older school buildings and higher labor costs. Expenditures per ADA for operations in LAUSD are about equal to those in the rest of the state, $170 versus $166.

TABLE 3A
Administrative Expenditures per ADA
General Fund 1979-80

Line Item	LAUSD	Oakland	Rest of State(a)
Instructional Administration	$ 48	$ 72	$ 24
School Administration	160	142	135
District Administration	93	88	115
Maintenance	97	104	73
Operations	170	184	166
TOTAL	$568	$590	$513

(a) Excluding LAUSD and Oakland.

Source: Form J-41

To what extent are higher expenditures per ADA for administration and maintenance in LAUSD related to size as opposed to its urban character and higher concentrations of students with special needs and older facilities? Finding a city that is truly comparable to LAUSD is virtually impossible. However, in Oakland, where the concentration of students with special needs is roughly comparable and which faces similar problems of old facilities and high cost of living, expenditures per ADA are higher in all but one of the five categories, school administration. Expenditures per ADA for all five line items are 4 percent greater in Oakland than in LAUSD, despite the fact that Oakland is only one-tenth the size of LAUSD.

These comparisons should be viewed cautiously. In many respects, the figures are not truly comparable and making them so would require substantial work, if indeed comparability could be achieved at all. These aggregate data reported on Form J-41 do not reflect major programmatic differences among school districts nor differences in salary scales and seniority. Nevertheless, with only $55 per ADA ($568-$513) separating LAUSD from the rest of the state, a costly study of comparability is not likely to produce significant findings of significant diseconomies of scale.

In short, on the basis of reviewing existing data, we find no evidence that the large size of the district has led directly to above average expenditures per ADA for administration, maintenance, and operations. Rather, insofar as these expenditures exceed figures for the balance of the state, the differences are largely attributable to eligibility for categorical aid, older facilities, and higher cost of living. There are, however, three size issues that remain to be addressed.

The first of these is the effect of <u>school</u> size on costs per student. There is little doubt that very small schools are inefficient, and indeed the size of many schools within LAUSD may raise more serious efficiency issues than the size of the district itself. Second, very large districts are prone to excessive numbers of administrators, and the administrative structure of LAUSD needs to be more closely examined. Third, large districts are necessarily dependent on computerization for management of their daily affairs, but their sheer size may make efficient management information systems difficult to design. Each of these three issues will now be analyzed in greater detail.

2. Underutilization and Overcrowding of Schools. LAUSD has a large number of underutilized and overcrowded schools. Were such schools randomly distributed throughout the district or relatively close to one another, the district would be hard pressed to explain why such a problem could be permitted to develop. However, geography and changing residential patterns have played havoc with the district's efforts to tackle this problem. As displayed in Table 4, underutilization is more pronounced in the San Fernando Valley (Areas 8, 9, and 10) which is geographically isolated from the central part of Los Angeles (Areas 2, 5, 6, and 7) where overcrowding is most severe.

LAUSD has been severely criticized by the Little Hoover Commission for allowing underutilization and overcrowding to persist. The Commission was especially concerned with the Board's apparent unwillingness to even consider closing any of the underutilized schools. A few closings have now occurred, and the problem of underutilization is being studied by a committee established by the Board in January 1981.

Nevertheless, at this time, many underutilized schools remain open, at a significant cost to the district. These schools cost more per pupil to administer and maintain. Each school has to pay for at least a principal and a secretary and for basic utilities. These costs are the same regardless of the size of the school. The cost per pupil, however, will be much greater in a small school. Suppose these costs total $60,000. In a school with 600 pupils, these "fixed costs" amount to $100 per pupil, while in a school with only 200 pupils, they amount to $300 per pupil, a substantial difference.

The consequences of small school size on instructional expenditures per student are readily apparent in LAUSD, and the differences among schools are substantial. Among elementary schools, instructional expenditures per ADA ranged from $911 per ADA to $2,486 per ADA, with a median expenditure of $1,239 per ADA. Among junior high schools, expenditures per ADA ranged from $1,214 to $2,701, with a median of $1,469. Among high schools, expenditures per ADA ranged from $1,087 to $1,918, with a median of $1,335. Differences of $500 or more per ADA among schools are common (see Table 8).

TABLE 4
Enrollment as a Percent of Capacity

Area	Elementary	Secondary
1	89	91
2	118	106
3	90	82
4	77	83
5	116	111
6	99	108
7	101	98
8	86	90
9	69	79
10	63	87
Total	93	93

Source: Printout supplied by LAUSD.

It should be stressed that these spending differences are mainly attributable to differences in the size of schools rather than do any district policy to allocate resources unequally. LAUSD is scrupulously fair in allocating teachers to schools and takes great pains to maintain equal student/teacher ratios among schools for the regular program. There are some differences among schools in average teacher salaries, due to the concentration of teachers with longer service in some schools; however, differences in average teacher salaries among schools would have to be extremely large to account for the magnitude of these expenditure differences. For example, assume a difference in average teachers' salaries between two schools of $5,000. Assuming an average class size of 34, this salary difference would amount to $147 per student, a significant sum, but hardly enough to account for differences in expenditures among schools of $500 or more.

The strong relationship between school size and expenditures per ADA can be shown quite clearly for LAUSD. Table 5 displays the distribution of elementary schools by size and three levels of total current expenditures per ADA. Of the 145 low spending (less than $1,374 per ADA) schools, 94 schools (65 percent) had more than 700 ADA. In contrast, of the 141 high spending (more than $1,693 per ADA) schools, 70 schools (49 percent) had less than 300 ADA and another 59 schools (41 percent) had less than 500 ADA. From Table 5, it is evident that the major cause of differences in expenditures per ADA among schools is differences in school size rather than other factors such as teacher salaries. The respective contributions of size and salary differences to differences in expenditures per student require further study if redistricting is to be pursued, for as will be shown in greater detail in Sections II and III, these spending disparities greatly complicate efforts to reorganize LAUSD.

What is to be made of these spending differences? First, if one argues that small schools are educationally superior to larger schools and worth the added cost, then access to better schools in LAUSD is very inequitably distributed, with minorities (especially Hispanics) being disproportionately deprived of equal access to superior schools (see Section III). Second, if one argues that small schools are not educationally superior to large schools and are therefore not worth the added cost, then there is gross inefficiency in LAUSD and the costs of this inefficiency are borne mainly by minorities attending schools in the downtown areas of the district. In short, either on grounds of educational quality or on grounds of efficiency, the spending inequalities resulting from small, underutilized schools constitute a problem of enormous proportions in LAUSD.

TABLE 5
Total Current Expenditures per ADA
by Size of School (Elementary)
Fiscal Year 1980-81

	Level of Expenditures			
	(a) Low	(b) Middle	(c) High	Row Total
<300 ADA	0	6	70	76
300-500 ADA	15	44	59	118
501-700 ADA	35	28	9	82
701-900 ADA	33	24	5	62
Over 900 ADA	61	28	1	90
Total	145	141	141	427

Source: LAUSD, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Expenditures less that $1,374 per ADA.
(b) Expenditures between $1,374 and $1,693 per ADA.
(c) Expenditures greater than $1,693 per ADA.

What can be done to alleviate this problem? If the issue is educational quality, probably very little can be done. Small schools in the valley and West Los Angeles cannot be relocated downtown, and the distances separating these schools from downtown are too great to make busing feasible, even if there were sufficient numbers of parents willing to participate in a busing program. Moreover, assuming most small schools would remain open, there presently are not sufficient resources to undertake a massive building program downtown to deliver the benefits of small schools to students residing there.

On the other hand, if the issue is efficiency, much could be accomplished by consolidating elementary schools with fewer than 500 ADA, or even 300 ADA. Presently, there are 194 elementary schools with fewer than 500 ADA, and of these, 76 have fewer than 300 ADA. Closing many of these schools and consolidating resources would greatly reduce expenditure disparities among the district's schools. Similar actions could be taken with junior high schools, although the problem of underutilization and the resulting spending differences are not as great among junior high schools.

It should be stressed that closure and consolidation would have practically no effect on the number of teachers employed in these schools. Total ADA would not change; consequently, because there would be no change in class size, all teachers previously employed in small schools would be needed in the newly consolidated schools. Some reduction in the number of school administrators and office staff probably would be required; however, if revenue from the sale or lease of closed schools were used to build or lease new schools in overcrowded areas, administrative and clerical positions would open up downtown. Whether principals and other school administrators would be willing or able to relocate is, of course, a troublesome issue.

It should also be noted that closing small schools is not likely to "save" the district large sums of money. Rather, it would permit LAUSD to redistribute resources from areas that now operate a large number of inefficient underutilized schools to areas that suffer from severe overcrowding. Thus, the primary concern underlying the underutilization/overcrowding issue is equity rather than great gains in the overall efficiency of the district's total budget. In short, the legislature should not expect to achieve significant reductions in total educational expenditures in LAUSD as the result of school closure and consolidation. It could, however, expect substantial improvement in the equitable distribution of those expenditures.

Would redistricting be likely to lead to school closures and a more equitable allocation of resources within

the area now constituting LAUSD? To the extent that underutilization continues because of the unwillingness of the LAUSD Board or district administrators to address this problem, new boards and changes in administration might help (although it should be noted that the district's present administrative staff has made numerous recommendations to the present board for closing schools). However, the major opposition to closing schools comes from parents with students in the schools involved, and it is difficult to see why this opposition would lessen if the district were reorganized. In this instance, the problem persists not because the present board refuses to listen and respond to parents, but it persists because the board does precisely that.

Nevertheless, it can be argued that the district is able to maintain these costly schools only because it is very large and is able to divert resources from other areas or from other educational functions (e.g., districtwide administration) to cover these high costs in isolated areas. Depending on how one determined the revenue limits for newly created distrcts, it might be impossible for new boards to continue to operate small, high cost schools. For example, if the revenue limits for all the new districts were equal to the present revenue limit for LAUSD, then depending on how the new district boundaries were drawn, limited resources in new districts with high concentrations of small schools would probably force closing small inefficient schools. This issue is analyzed in much greater detail in Sections II and III below. In short, in our judgment, the expenditure differences resulting from underutilization and overcrowding offer a compelling fiscal reason for seriously considering the redistricting of LAUSD; however, before any specific action is taken, the precise effects of school size on spending differences require more study.

3. Administration. LAUSD has frequently been accused of excessive administration. Charges have included maintaining a high ratio of administrators to teachers and diverting categorical funds to cover administration in the regular program. While this study cannot undertake an exhaustive examination of the issue of excessive administration, there is enough data available to do some preliminary analysis.

At the outset, it is important to note that there are no well established rules regarding the optimal number of administrators in a school district or the optimal ratio of administrators to teachers or students. The size of the district, the number, types, and sizes of schools, and the variety of program offerings are but a few of the variables affecting the need for administration. Furthermore, in attempting to assess the efficiency of different aspects of the district's operations, it is probably unwise to speak

of administration generically, as though all aspects of administration are similar and all administrators are interchangeable. In fact, administration encompasses a number of complex and very different functions, including accounting, personnel, facilities management, program management, and so on, some of which may be being performed efficiently and some of which may not. Unfortunately, most of the district's critics charging excessive administration have not undertaken any systematic analysis to identify precisely where the problems occur.

Nevertheless, there is cause for concern. Between 1977-78 and 1980-81, while K-12 enrollment declined about 8 percent, the total number of administrators in LAUSD grew by approximately 12 percent (Tables 6 and 7). This growth does not necessarily reflect excessive administration, but it does suggest a need for investigation of where this growth has occurred and why it has happened. A recent report by the Independent Analysis Unit of the L.A. Board of Education analyzes staffing trends for certificated personnel and is helpful in trying to answer these questions.

Between 1977-78 and 1980-81, the regular K-12 program enrollment (and the regular K-12 program ADA) declined by 8 percent (Table 6). During the same period, the number of teachers assigned to the regular K-12 program declined by 13 percent, and the number of administrators in the regular program declined 9 percent (Table 7). Thus, assuming the number of teachers and administrators assigned to the regular program as opposed to other programs has been correctly reported, the number of teachers and administrators assigned to the regular program has been declining faster than enrollment.

The fact that the number of teachers is declining faster than the number of administrators is reasonable. As soon as 25-30 pupils are lost, a teaching position may be eliminated. However, until enough students are lost to close a school, basic administrative staff must be retained. Similarly, in the area and central offices, a sizeable drop in enrollment must occur before administration can be reduced significantly because many of the administrative tasks require a fixed amount of time and personnel regard less of the number of students served. Such fixed costs constitute one of the primary rationales for the state's declining enrollment adjustment in the state aid formulas. In short, the staffing trends in LAUSD's regular K-12 program seem reasonable, and it is difficult to see how reorganizing the district would produce significant savings in this area.

TABLE 6
Enrollment and Average Daily Attendance

	1977-78	1980-81 (Budget)	% Change
Enrollment			
K-12 Regular	571,734	525,347	-8%
K-12 Special Ed.	12,126	13,249	+9%
Total	583,860	538,596	-8%
Average Daily Attendance			
K-12 Regular	549,369	503,591	-8%
K-12 Special Ed.	13,218	15,610	+18%
K-12 Concurr. Enr.	4,853	6,140	+27%
K-12 Summer School	37,338	2,724	-93%
Total K-12 ADA	604,778	528,065	-13%
Adult ADA	49,894	49,160	-1%
TOTAL K-12 PLUS ADULT ADA	654,672	577,225	-12%

Source: Murdoch, Mockler, and Associates, "Five Year Revenue Trends for Districts Belonging to the Association of California Urban School Districts," March 1981.

Table 7
Teachers and Administrators by Program

	Teachers			School Administrators			Nonschool Administrators			Total Administrators		
	1977-78	1980-81	%	1977-78	1980-81	%	1977-78	1980-81	%	1977-78	1980-81	%
Regular K-12	22,772	19,846	-13	1,284	1,209	-6	423	341	-19	1,707	1,550	-9
Special Ed.	2,139	2,479	+16	25	24	-4	132	174	+26	157	198	+26
Integration	52	2,004	—	8	189	—	65	134	+106	73	323	+342
Comp. Bil. Ed.	803	1,192	+48	149	262	+76	138	158	+14	287	420	+46
Misc. K-12	458	179	-61	62	82	+32	43	37	-14	105	119	+13
TOTAL K-12	26,224	25,700	-2	1,528	1,766	+16	801	844	+5	2,329	2,610	+12
Adult	1,488	1,140	-23	103	89	-14	31	27	-13	134	116	-13
ROC	350	420	+20	39	30	-23	3	3	0	42	33	-21
Commun. Serv.							16	8	-50	16	8	-50
GENERAL FUND TOTAL	28,062	27,261	-3	1,670	1,885	+13	851	882	+4	2,521	2,767	+10
Children's Ctrs.	592	444	-25	77	77	0	20	17	-15	97	94	-3
TOTAL ALL FUNDS	28,654	27,705	-3	1,746	1,962	+12	871	898	+3	2,617	2,860	+9

Source: Los Angeles City Board of Education, Independent Analysis Unit, Certificated Staffing Trends 1977-78 to 1980-81, October 1981.

In contrast to the staff declines in the regular K-12 program, however, the numbers of teachers and administrators in some other programs have grown markedly. Large gains have occurred in special education, integration, and compensatory and bilingual education. To some extent, this growth seems reasonable. More children are being identified as eligible for special services, and in many instances the staffing requirements for teachers and administrators are established by the state or federal government and are beyond the direct control of the district. Additionally, one of the conditions for court approval of the district's desegregation plan was a reduction in class size from 34 to 27 in schools participating in the plan, requiring approximately 2000 more teachers. Nevertheless, the growth in special programs is dramatic and, coming at a time of significant enrollment decline in the regular program, is cause for concern. A thorough review of special programs would be useful.

More immediately relevant to the concerns of this study is where the growth in teachers and administrators has occurred -- downtown in central offices or in the schools and area offices. According to the report of the Independent Analysis Unit, the growth has occurred mainly at the school site. When all K-12 programs are considered, there has been a 3 percent decline in teachers, a 12 percent increase in school administrators, and a 3 percent increase in nonschool administrators. Of the 243 administrators added between 1977-78 and 1980-81, 216 were school administrators and only 27 were nonschool administrators (Table 7.)

Why has there been such an increase in school administrators? The Independent Analysis Unit singles out as a possible cause the district's practice of establishing a separate administrative structure for each major funding source -- special education, vocational education, bilingual education, and so on. This practice creates redundant administration, and the Independent Analysis Unit has recommended further study to identify methods for consolidating some tasks. Consolidation, however, is impeded by federal and state funding requirements, as well as the strict auditing requirement under which most districts labor. To ensure that funds for special programs are spent only on those programs, teachers and administrators are sometimes prohibited from devoting time to other programs or tasks, even though it would be sensible to do so.

To summarize, unless redistricting led to a large reduction in the number of schools operated by LAUSD, there is no strong evidence that breaking up LAUSD into smaller, independent districts would lead to substantial reductions in administration. To the extent there is "excessive" administration in LAUSD, it appears to be located mainly at the school site and to result from school level coordina-

tion of special programs. Redistricting per se is not likely to solve this problem. Rather, insofar as the legislature wants to reduce administration in LAUSD, and perhaps elsewhere, it might be better advised to establish clear administrative and staffing requirements for special programs and seek reductions there.

4. Lack of Management Information Systems. LAUSD currently lacks accurate and timely financial information. In a review conducted by the accounting firm of Deloitte, Haskins, and Sells early in 1981, the following problems were identified: financial reports not always received on a timely basis after the close of a period; inadequate links between budget and spending reports; current systems of reporting not integrated and therefore producing reports that need to be reconciled; no common financial data base from which to produce ad hoc reports; and an outdated payroll system that is not easily maintained.

For efficiently managing a district the size of LAUSD, computerized management information is critical. The district recognizes this and has been working on a Payroll, Personnel, Budget and Accounting System (PPBA) and on a student data information system. Implementation has been delayed a number of times.

There is no doubt that the sheer size of LAUSD has complicated the development of a management information system, and were a system not now under development, one might argue that redistricting might make development and implementation easier. However, until the status of the system currently under development is reviewed, it seems premature to assume that redistricting would lead to better management of information.

C. Conclusion

On the basis of the existing evidence, we see only one compelling economic argument for redistricting, the potential to achieve greater efficiency or equity by redistributing resources within the district. No other economic arguments strike us as convincing. Thus, although LAUSD wields considerable political power in Sacramento, this has not resulted in the district receiving a disproportionate share of state resources for K-12 education. The possible exception to this conclusion is the revenue LAUSD receives as partial reimbursement of mandated court costs, but, as noted previously, it is difficult to attribute the provision of these funds to LAUSD's political clout. More to the point, redistricting is not likely to solve the desegregation problem and eliminate the need for these mandated costs. Consequently, the legislature would probably be better advised to tackle the mandated cost issue directly rather than as an adjunct to reorganizing LAUSD.

With respect to some of the other problems confronting the district -- administration and improved management of information -- there is no question that these have important economic effects on the district, but there is little reason to believe that substantial savings in any of these areas would result from redistricting. To the extent that there is excessive administration in LAUSD, it appears to be concentrated at the school site in the coordination of special programs and services. This is potentially a serious problem, but is one that is better addressed directly through changes in staffing requirements rather than by hoping for unspecified changes through reorganization. Finally, were the implementation of an effective management information system not imminent, there would be sound reasons for arguing that the district's presently chaotic affairs might be resolved by breaking up into smaller units, but in light of the efforts that have already been made to develop an efficient and effective management information system, it would be premature to weigh this argument heavily until the new system has been evaluated.

In short, if redistricting is to be pursued, the fiscal justification for it must rest on concerns about the inefficiency and/or inequity of the intradistrict allocation of resources rather than the inefficiency of large districts. In our judgment, the other economic benefits resulting from decentralization are either too small or too uncertain to justify the costs associated with making the transition to a new set of arrangements. There may, however, be compelling non-economic reasons for decentralization. Consequently, in the section that follows, we assume that redistricting is pursued and examine some of the fiscal problems that must be addressed if that course is taken.

II. FISCAL IMPLICATIONS OF REORGANIZATION

There are a number of major fiscal problems that would need to be solved if the legislature were to pursue the reorganization of LAUSD. Generally, there are two families of options that could be pursued, one involving some form of redistricting and the second involving internal reorganization of LAUSD. In many respects, it is easier to assess the fiscal implications of the first approach, for there are fiscal issues that must be addressed regardless of the specific form of redistricting. Assessing the fiscal implications of internal reorganization, however, depends much more on the specific form that such plans might take. In this section, we are mainly concerned with analyzing rdistricting options; however, we conclude the section with some brief comments on internal reorganization.

Redistricting could be approached in one of three ways. First, a number of new, wholly independent school districts could be created out of the present district. Second, various parts of LAUSD could be broken off and joined with contiguous districts bordering LAUSD. Third, districts bordering LAUSD could also be dissolved with wholly new independent districts being created out of the geographic area enclosed by the old boundaries. There are a number of fiscal issues common to these three approaches, and these will be discussed first under three primary headings: 1) the distribution of revenues for current operating expenditures, 2) the distribution of assets and liabilities, and 3) the costs of transition. Additionally, the transfer of territory to other districts or the dissolution of contiguous districts raise some special problems that will be discussed separately.

A. The Distribution of Revenue

Basically, three factors affect the amount of money available to school districts in California: 1) the district's base revenue limit, 2) adjustments to the base revenue limit for such purposes as meals for needy pupils and mandated court costs, and 3) eligibility for state and federal assistance under a variety of categorical programs. These three factors produced revenues in exess of $1.5 billion for LAUSD in 1980-81. How would this sum be distributed if LAUSD were divided into a number of new school districts?

1. Base Revenue Limits. In 1980-81, LAUSD had a base revenue limit of $1,785 per ADA, which yielded approximately $950 million. This sum, in addition to federal impact aid, urban impact aid, and a few other miscellaneous sources of revenue, provided the unrestricted resources for support of the district's general education program. Under

present law, the district is free to allocate these funds among areas and schools pretty much as it sees fit. For a variety of reasons, these funds have not been distributed equally on a per student basis throughout the district. As displayed by Table 8, there is wide variation among schools in total current expenditures per ADA for the regular education program in LAUSD. For elementary schools, expenditures per ADA in 1980-81 ranged from as little as $1,030 per ADA to as much as $3,470 per ADA, with a median expenditure of $1,494. The spread among junior and senior high schools was somewhat less but still substantial.

As was noted in Section I, two factors account for most of the spending differences among schools--school size and differences in teachers salaries due to the concentration of teachers with longer tenure at the "more desirable" schools. Additionally, a maintenance formula based on square footage adds to the spending disparities. It should be stressed that the district goes to great lengths to ensure that student teacher ratios are equal across schools; the spending disparities in the regular program are not the result of some schools having more personnel than others.

These school spending disparities are analyzed in greater detail in Section III. Suffice it to say here that schools with high expenditures per ADA are geographically concentrated in a few areas of the district (mostly in the San Fernando Valley) and schools with low expenditures per ADA are mainly concentrated in areas downtown. Consequently, it is not likely that new districts could be created that would have the same mix of high and low spending schools. Thus, if current levels of expenditure per ADA were to be maintained in the new districts, some districts would require more general purpose revenue per ADA than others. This poses a thorny problem.

TABLE 8
Variation in Expenditures Among LAUSD Schools
by Type of School, 1980-81

	Elementary	Jr. High	High(c)
School Characteristics			
Number	427	75	49
Median Size (ADA)	545	1,412	2,253
Instructional Exp./ADA(a)			
Maximum	2,486	2,701	1,918
Minimum	911	1,214	1,087
Range	1,575	1,487	831
Median	1,239	1,469	1,335
Standard Deviation	245	246	143
Other Direct Exp./ADA(b)			
Maximum	1,223	989	661
Minimum	97	177	160
Range	1,126	812	501
Median	255	348	383
Standard Deviation	181	180	117
Total Current Exp./ADA			
Maximum	3,470	3,313	2,556
Minimum	1,030	1,444	1,304
Range	2,440	1,869	1,252
Median	1,494	1,828	1,727
Standard Deviation	399	371	213

Source: Based on data in LAUSD Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Major instructional expenses include professional salaries, materials, and supplies.
(b) Major other direct expenses include custodial expenses, repair and replacement of equipment, and transportation.
(c) Excludes continuation and special opportunity high schools.

Under restrictions imposed by state Supreme Court in Serrano v. Priest, the state is now pursuing a policy of gradually equalizing base revenue limits across school districts. The state has been ordered to reduce all "wealth related" spending disparities among school districts to less than $100 per ADA, and it is seeking to accomplish this equalization by gradually "squeezing" the gap in base revenue limits between high and low limit districts. At what level, then, could the state set base revenue limits for the newly created districts?

Essentially, the legislature has three options. The first and simplest approach would be to set the new base revenue limits equal to that of LAUSD. This would require no new state revenue and would completely satisfy the requirements of Serrano. It would, however, result in a substantial redistribution of resources from areas that presently have a large number of schools with high expenditures per ADA to areas with predominantly low spending schools. Under this approach downtown areas would gain at the expense of the valley and West Los Angeles (see Section III). To compensate for the lost revenues, formerly high spending areas would be forced to close small schools and to reduce personnel. They might gain, however, complete control over very valuable property and the resources from its sale or lease (see below).

A second approach would set the new base revenue limits to reflect the current spending differences per ADA and then subject these revenue limits to the same squeeze factor operating on all interdistrict inequalities in revenue limits. New districts with low revenue limits would be brought up to the high limit districts over time in the same fashion that other low limit districts throughout the state are being "leveled up." This approach has three drawbacks. First, it almost certainly would be challenged in court. It is one thing to equalize old disparities over time; it is quite another to create new disparities and then promise to equalize them over time. Second, it is difficult to see why downtown areas would go along with this politically. They gain nothing except independence and a large number of overcrowded, low spending schools, while the valley secures its freedom from the old district, enjoys high current expenditures, and assumes full control over some of the most valuable real estate in the district. Third, it may not be possible to draw new district boundaries that would bring new base revenue limits within the range now existing throughout the state. In other words, redistricting LAUSD would set back the whole state in its progress in equalizing resources. As analyzed in Section III below, the disparities among schools in expenditures per ADA within LAUSD are much greater than the disparities existing among districts throughout the state. It is difficult to imagine that the court would permit the

legislature to backslide on Serrano.

A third approach would seek to draw new district lines to minimize the spending disparities among the new districts, set the base revenue limit for all the new districts at the level the would maintain present spending in the highest spending district, and then provide the additional revenue to bring the other districts up to the new limit. For example, suppose it were possible to draw new boundaries such that the highest base revenue limit necessary to maintain present spending patterns was $1,850 per ADA for 1980-81, compared to a base revenue limit of $1,785 for all of LAUSD in 1980-81. Bringing the remaining new districts up to this new level of $1,850 would cost approximately $34.5 million ($65 per ADA x 531,000 ADA). While this approach might be the easiest to sell to residents of Los Angeles, it has two major drawbacks. First, it probably requires additional state money at a time when the state's resources are severely constrained (however, see the discussion of revenue limit adjustments, especially mandated cost money, below). Second, minimizing the cost to the state of this approach depends on minimizing the size of the spending disparities among the new districts. Given the geographic pattern of spending, minimizing these disparities would require either a great deal of gerrymandering or districts of such great size that little would be accomplished through reorganization.

Despite the drawbacks of each approach, they do not necessarily preclude redistricting as an option for the legislature. The first, simple equalization, while extracting from the valley areas and West Los Angeles a high price for independence, might be acceptable if areas losing revenues were able to offset some of this loss with revenues from the sale or lease of schools or with revenues resulting from new legislation providing some new local taxing power for education. The second, tying new revenue limits into the existing procedure for spending equalization, while legally difficult, might work if sound educational reasons for redistricting could be established and if the disparities in new limits could be minimized. The third, leveling up low spending areas, while requiring additional resources, might not require a net increase in state aid depending on what is done with resources used for revenue limit adjustments and categorical aid. Whatever approach is taken, existing spending disparities among schools will have to be carefully analyzed. We offer some preliminary findings in Section III to illustrate what needs to be done; however, if the legislature wants to pursue redistricting, a more thorough review will be required.

2. Adjustments to the Base Revenue Limits. In 1980-81, adjustments to the base revenue limit produced an additional $318 per ADA for LAUSD, bringing the district's

total revenue limit to $2,103 per ADA. How would this additional revenue be distributed among newly formed districts?

For the most part, revenue limit adjustments would pose no special difficulties. With one important exception, the adjustments reflect situations that can easily be associated with a particular school or school district. Thus, the declining enrollment adjustment, meals for needy pupils, the minimum revenue guarantee, and the inter-district attendance adjustment could all be treated in this fashion. Assuming the basic problem of school spending disparities in the regular education program was addressed in establishing the base revenue limit, then funds allocated under these adjustments could simply flow as they were earned by the new districts.

The one exception, however, is a major one--mandated costs. These amounted to approximately $121 million for LAUSD in 1979-80. Moreover, as explained in Section III, most of this money is now included in the regular program expenditures, and therefore, our analysis of school spending patterns understates the disparities among schools in base revenue income per ADA. If one assumes that this money would flow to targeted schools and that it is intended to supplement base revenue limit income, then the redistribution resulting from establishing equal base revenue limits will be even greater; on the other hand, if existing spending disparities were initially maintained and reduced over time, these differences would be much larger and more subject to legal challenge. What is likely to happen to these mandated cost revenues if redistricting were to occur?

Unfortunately, it is not at all clear what the status of the integration program would be if LAUSD were redistricted, as there is no precedent for dissolving a district under court order to desegregate. The entire amount LAUSD has received might be in jeopardy. If it were claimed that a court mandated integration program no longer existed, it might also be argued that the authority for this appropriation also no longer existed.

If redistricting effectively eliminated the present integration plan and the costs associated with it, the legislature would have at least four options with respect to mandated cost allocations. First, assuming that desegregation would continue to concern the court, the money might simply be reserved to cover the costs of desegregation plans developed for the newly created districts. Whether this sum would be more or less than the current sum is unknown and extremely difficult to predict. Second, if court mandated costs could be expected to be less under redistricting, the "savings" could be applied to equalizing disparities in base revenue limits among the new districts.

Third, assuming that mandated costs were no longer an issue under redistricting, the legislature could apply all of these funds to "leveling up" base revenue limits in low spending areas. If the entire $121 million of mandated cost revenues were applied to reducing spending disparities among newly formed districts, disparities of as much as $227 per ADA ($121 million/531,000 ADA) could be eliminated. Fourth, the legislature could completely cease to allocate mandated cost revenues to the new disricts and use the funds for other purposes. This last choice would, of course, have a devastating impact on the new districts if implemented all at once, for mandated cost revenues now account for almost 9 percent of total expenditures in LAUSD and for more than 12 percent of general purpose revenues.

Other alternatives may also exist. However, what must be clearly understood is that the mandated cost adjustment amounts to a significant proportion of the LAUSD budget, that it is not evenly distributed among the schools now, and that considerable hardship would be imposed if it were eliminated all at once. Under a redistricting plan, some way would have to be found to distribute these funds fairly or phase them out gradually.

3. Categorical Revenue. Most categorical revenue would probably continue to flow to the new school districts as it presently does, since the requirements for eligiblity typically depend on the characteristics of students or schools. One major exception is urban impact aid, which is based on the characteristics of the district. Depending on how the district boundaries were drawn, some districts might receive more urban impact aid per ADA than others. Indeed, some might not receive any at all, raising the possibility of some reduction in the total amount of urban impact aid going to what was formerly LAUSD. This problem can be more thoroughly examined should the legislature decide redistricting is worth pursuing.

B. Distribution of Assets and Liabilities

LAUSD currently owns an enormous amount of real property, including land, schools, other buildings, and equipment. Land and buildings are carried on the district's books at a value of approximately $1.3 billion. However, this sum is based on cost at the time of acquisition, and much of the property was acquired over 50 years ago. Market value could easily be ten times this book value, and that may be a very conservative estimate. In the debit column, LAUSD carries a modest sum of long term voted indebtedness, with about $200 million in principal outstanding. No new bonds have been issued since 1966, and current bonds will be completely retired by 1994. How would redistricting affect the distribution of assets and liabilities?

First, it must be recognized that just as there are great disparities in total current expenditures per ADA among schools, there are vast disparities in the value of land and buildings per ADA. While data on the current market value of these assets have not been compiled, it is evident that the value of individual sites, buildings, and equipment depends on location, age, and physical condition, and these attributes are not evenly distributed throughout the district. It can therefore be concluded that any geographically based redistricting of LAUSD would result in an unequal divsion of these kinds of assets unless specific plans for dealing with the inequalities were developed. Other kinds of assets, such as buses, trucks, and other mobile equipment would also have to be divided up, although these involve far smaller sums and probably could be handled without great difficulty. How, then, might real property be distributed?

One approach would simply allocate real property to the new districts based on wherever property happened to be located; no attempt would be made to compensate for the current inequalities among different areas of the old district. Combined with an approach that also set all new base revenue limits equal, this might be appropriate. Assuming that the value of real property per ADA is high in areas where spending is high, then distributing real property based on location might compensate new districts that "lose" on spending equalization. How equitable, as well as how politically feasible, this approach would be depends on more careful analysis of how the market value of real property is distributed throughout the district, an issue that will require further study if the legislature decides to pursue redistricting.

Another aspect of this problem that needs to be considered is the fact that the need for capital expenditures in the future would also vary among the new districts if LAUSD were redistricted. Some would have high concentrations of older buildings needing extensive repairs and having high maintenance costs, while others would have newer buildings with lower maintenance and repair costs. Because of the way the metropolitan area has grown, the schools in the San Fernando Valley tend to be newer than those in the central part of Los Angeles. As a result, their need for maintenance and repair is lower. The relatively low recent capital expenditures for areas 8, 9, and 10 reflect this (see Table 9). In the central part of Los Angeles (areas 2 and 5 particularly), the schools have a much greater need for repair and replacement. As Table 9 shows, the average annual capital expenditure during a three year period in area 5 was seven times the expenditure in area 10. The seriousness of this problem depends on whether the new districts with high maintenance would also enjoy higher current operating expenditures per ADA.

Table 9
Capital Outlay and Deferred Maintenance
(Regular Programs)

Area	No. Schools 1980-81	No. Pupils 1980-81	Avg. Annual Expenditures 1978-79 to 1980-81 ($ Thousands)
1	73	57,520	$1,255
2	63	64,706	3,494
3	70	57,414	1,415
4	65	40,272	2,155
5	62	60,347	3,529
6	66	55,232	1,553
7	65	46,341	1,762
8	74	50,615	1,074
9	68	40,377	1,231
10	66	36,343	506

Source: Based on data in LAUSD Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Years Ending in June 1979, June 1980, and June 1981.

A second approach to dealing with the LAUSD's capital stock under redistricting would create a special district responsible for managing all the real property of LAUSD. This special district would lease facilities to the new districts, maintain the property, and manage the sale of property and new construction. To minimize maintenance costs, care would be needed to ensure that lease arrangements contained effective financial incentives for tenants to care for the property, but as with any commercial arrangement, this should not pose an insurmountable problem. An attractive feature of this approach is that it might greatly discourage underutilization of schools. Since the districts would have to lease their facilities at fair market rates from the special district, they would have powerful incentives to consolidate small schools. As space then became available, the special district managing this real estate would be able to lease or sell schools to private concerns, using the revenue to address problems of overcrowding in other districts.

Additionally, such a special district would greatly simplify retiring existing debt. Property taxes levied to retire voted indebtedness are protected from the one percent tax rate limit established by Proposition 13. The district now levies a modest rate above the one percent levy to retire debt. The simplest approach to debt retirement in the event of redistricting would be to continue to levy this rate against all property in the area constituting the old district. As the sum is small, this is probably the most reasonable approach. However, residents of some areas might argue, justifiably, that the benefits of bonded debt have not been distributed equally throughout the district. If these residents also experienced lower expenditures per ADA because of lower base revenue limits, they might resist redistricting even more strongly. While it is possible but tedious to determine how the proceeds of bonds were spent and thus allocate benefits geographically to new districts, Proposition 13 makes it virtually impossible to adjust the voted indebtedness tax rates accordingly. Consequently, a special district established to manage all the real property and debt of what was formerly LAUSD would seem a sensible approach to the dual problems of distributing assets and liabilities.

C. The Costs of Transition

If a decision is made either to change the current administrative structure to a more decentralized one or to redistrict LAUSD completely, certain one-time costs will be incurred in order to make the transition. They fall into two major categories: planning and implementation. No attempt has been made to make precise estimates of these costs, but it seems probable that the planning costs would

be greater than the implementation costs.

1. Planning. Extensive plans would be necessary for any type of reorganization. For administrative decentralization, plans would have to be developed to assign responsibilities for specific functions, to specify their interrelationships, and to set up new facilities to accommodate them. In other words, a new detailed organization chart would have to be developed. A staffing plan would also be needed to indicate which individuals would fill specific jobs and what would happen to those now serving in the central office and administrative area offices.

If redistricting were pursued, the planning requirements (and therefore costs) would be much greater than for administrative decentralization. Some of these requirements have already been discussed in earlier sections of this report. District boundaries would have to be established and pupils assigned to the new districts; a means of establishing revenue limits would have to be developed; distribution of capital assets and debt would have to be dealt with; and a plan for dealing with existing contracts would have to be developed. And, as in the case of administrative decentralization, new administrative structures would have to be established and a staffing plan created.

Considerable time and resources would have to be allowed to conduct the necessary analyses and develop these plans. Outside technical assistance would most likely be necessary, at least to deal with the financial and legal issues.

2. Implementation. With any kind of reorganization, costs would be incurred for closing down existing facilities and for disposing of or redistributing supplies and equipment. Additional costs would be incurred for establishing new offices, and for hiring or transferring new personnel. Unforeseen technical and legal problems might also arise during implementation and impose additional costs.

Finally, intangible costs would be incurred because of the disruption of old routines. Personnel would be less efficient for some time until they learned new routines and established new communication links with the schools and new administrative offices.

D. Issues Related to Transfer or Dissolution

The issues raised above apply to any approach that would seek to transfer parts of LAUSD to adjacent school districts. However, in the case of territory transfers, one additional factor needs to be considered, namely, what

happens if the the base revenue limit of the adjoining district is not equal or close to equal to that of LAUSD. Consider first the case of an adjoining district with a revenue limit higher than that of LAUSD. Unless the legislature were willing to reduce the revenue limit of the adjoining district, transferring part of LAUSD would cost the state money, the precise amount depending on the revenue limit of the contiguous district and on the ADA of that part of LAUSD being joined to it.

Second, in the case of an adjoining district with a lower revenue limit, two problems arise. First, the transfer may be strongly resisted by that part of LAUSD being transferred if it is perceived that the quality of education is lower in the adjacent district because spending is lower. Second, the adjacent district will also resist the transfer if it anticipates that it will have to cover the higher costs that result from small school size and high salaried teachers in the area being transferred. In both cases, additional state money to equalize the base revenue limit at the higher level is probably the only incentive that will obtain local acceptance of the transfer.

Obviously, such problems would be compounded if the legislature sought to dissolve some or all of the districts bordering LAUSD before defining new district boundaries. These problems are not technically insurmountable, but their complexity would make it difficult to attain any rational political discussion and resolution at either the state of local level.

E. Fiscal Implications of Internal Reorganization

Internal reorganization undertaken voluntarily by LAUSD could have important effects on costs and expenditures per ADA, as well as on the allocation of resources within the district. However, lacking a specific suggestion for internal reorganization, it is impossible to determine what these effects might be. More importantly, for purposes of this study, we see no fiscal implications for state policy that would result from voluntary internal changes.

III. EXPENDITURE PATTERNS IN LAUSD

As indicated in Section II, if LAUSD were redistricted, revenue limits would have to be established for each of the new districts. Depending on the option chosen to set these new limits, immediate to longterm changes would occur in the levels of spending per ADA in each of the new districts. It is therefore important to gain an understanding of the current expenditure patterns within LAUSD and the problems they could cause if redistricting occurred. The nature and severity of the problems are factors to be weighed in deciding whether or not to redistrict, and therefore, they need to be examined carefully.

The following is a first attempt to analyze the expenditure patterns within LAUSD to try to discover what the existing patterns are and to develop a sense the degree of revenue redistribution that would result from redistricting. Regardless of how base revenue limits were initially set, some of the new districts would enjoy higher expenditures per ADA, either because existing expenditures per ADA had been maintained or because existing disparities had been equalized. To clearly understand the effects of redistricting and their implications for equity, the redistribution effects need to be described as clearly as possible before any final legislative decisions are made. We have therefore tried to answer the following questions:

(1) How do per pupil expenditures currently vary among schools?
(2) How is this variation distributed geographically?
(3) Could new districts be created without great diferences in per pupil expenditures?
(4) If new districts were created to try to minimize per pupil expenditure differences, what would be the impact on the racial/ethnic composition of the new districts?

In trying to answer these questions, we were limited by time and resource constraints to data that were readily accessible. We therefore relied on the LAUSD Controller's Annual Report of Expenditures Classified by School for 1980-81, the most recently available report. The Controller's report classified expenditures in the following categories:

(1) Instructional and related expenses (includes teachers, administration, and materials)

(2) All other direct school expenses (includes custodial, repair and maintenance, transportation)

(3) Total current expense (instructional plus all other direct)

(4) Capital outlay and deferred maintenance (includes land, new buildings and equipment, deferred maintenance)

(5) Total direct expense (total current plus capital outlay and deferred maintenance)

Additionally, it reports expenditures in each of these categories for each school for:

(a) Regular Programs

(b) Summer Programs

(c) Specially Funded Educational Programs.

For this analysis we used the Total Current Expense for Regular Programs for all the area-administered schools, which include the regular elementary, junior high, and high schools. Excluded here were special education schools, adult schools and regional occupational centers. Expenditures for specially funded programs were ignored because these would not be likely to change significantly as a result of redistricting. Further, because summer program expenditures occurred at only a small number of schools and involved only trivial amounts per ADA, these expenditures were also ignored. Finally, capital expenditures were not included because they vary considerably from year to year for any particular school. For example, a school might get a new roof one year and nothing the next. Consequently, one year's expenditures could not be relied on to be representative of what is typically spent for that school. Since capital expenditures only amount to 1.6% of total schoolbased expenditures, excluding them should not significantly alter our findings on the general pattern of expenditures.

The major limitation of these data for our purposes is that expenditures are not linked to specific funding sources. Because we are most interested in distributional consequences of new revenue limits, it would have been desirable to identify precisely the expenditures presently funded from revenue limit income; however, this was not possible with the data available for this study. Fortunately, most of the expenditures reported for regular programs are in fact funded from base revenue limit income. The major exception is the integration program, which is funded for the most part from a special revenue source, but for which expenditures are categorized as regular program expenditures. Without knowing school-by-school expenditures for integration programs, we could not exclude them from our analysis of regular program expenditures.

Because of the distortions caused by this problem, the expenditure data used for this analysis can be relied on only for identifying general patterns. Establishing actual revenue limits for new districts would require analysis of more detailed data relating expenditures to funding sources. Such data are maintained by LAUSD, but their analysis is beyond the scope and resources of this particular project.

A. Variation in Expenditures

There is wide variation in per pupil expenditures among the schools in LAUSD. Moreover, as Table 8 shows, there is more variation in some types of expenditures than others and in some types of schools than others.

The lowest spending school in 1980-81 had expenditures of $1030 per ADA, while the highest spending one had expenditures of $3470 per ADA, more than three times higher. (Table 8). This intradistrict variation is to be expected. The Controller's expenditure report lists a number of causative factors:

- varying transportation needs
- school size (larger schools generally have lower costs per ADA)
- salary differentials and additional staffing and materials in urban impacted schools
- staff seniority differences
- discretionary Area funds
- varying site size and special requirements
- vandalism expenses
- rates of absenteeism (creating need for substitutes)

As Table 8 also shows, the variation in other direct expenditures is greater than the variation in instructional expenditures. For example, in the elementary schools, the instructional expenditures in the highest spending school are about two and a half times those in the lowest spending school. Other direct expenditures, on the other hand, are over 12 times as great in the school with the highest other direct expenditures as in the one with the lowest. The differences in the junior and senior high schools are similar although not as dramatic.

This variation is readily explainable by looking at some of the important components of the other direct costs: custodial costs, painting and repairing costs, school equipment repair and replacement costs, and transportation costs. It is reasonable to assume that the need for these expenditures will vary considerably from school to school.

With respect to school type, the interschool variation is greatest in the elementary schools. This is to be expected since there are more elementary schools and they tend to be smaller than the secondary schools.

We must emphasize again that these differences in expenditures per ADA among schools have many causes. In some instances--such as transportation, insurance costs, staff seniority differences--they are currently unavoidable. In other cases, as discussed in Section I, they may be due, at least in part, to the inefficiencies associated with operating small underutilized schools. While in our judgment, school size appears to be the major factor accounting for the disparities, this needs much more thorough analysis, and our conclusion should be considered preliminary at best.

While it is not possible given the scope of this study to undertake a more thorough analysis of the causes of school spending disparities, it is possible to examine how these disparities are geographically distributed and analyze their implications for redistricting. If the high and low spending schools are distributed rather evenly throughout the district, then the interdistrict disparities in newly formed districts are not likely to be very great, and the problem can be ignored as a redistricting issue. If, on the other hand, high and low spending schools tend to be geographically concentrated, problems of large interdistrict disparities must be addressed. We therefore turn next to the geographic distribution of the variation.

B. Geographic Distribution of the Variation

Since the precise number of new districts that would be created and their boundaries are not known, we decided to analyze the geographic patterns of expenditures using the ten existing administrative areas as illustrations. Expenditures per ADA are not distributed equally throughout the district. If they were, the average amount spent per ADA would be approximately the same in each Area. Table 10

Table 10
Total Current Direct Expenditures/ADA
Regular Program 1980-81

Area	ADA	Elem.	Jr. High	Sr. High	Total(a)
1	57,520	$1,421	$1,642	$1,607	$1,541
2	64,706	1,344	1,803	1,709	1,515
3	57,414	1,466	1,946	1,809*	1,634
4	40,272	1,780	1,964	1,793	1,846
5	60,347	1,419	1,654	1,638	1,570
6	55,232	1,313+	1,744	1,704	1,498
7	46,341	1,341	1,652	1,517+	1,456+
8	50,615	1,506	1,836	1,802	1,688
9	40,377	1,701	2,054	1,785	1,830
10	36,343	1,833*	2,191*	1,756	1,940*
TOTAL (b)		1,462	1,833	1,718	
Difference Between Highest & Lowest		520	549	292	484

Source: Based on data in LAUSD Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Includes elementary, junior high, senior high, junior and senior high combined, magnet, continuation high and opportunity schools.

(b) Area administered expenditures only.

* Highest
+ Lowest

shows that this is not the case. The average total current direct expenditures for regular programs (for all types of schools -- elementary, secondary, magnet, continuation, and opportunity schools) ranges from a low of $1456 per ADA in Area 7 to a high of $1940 in Area 10. The three highest spending Areas, 4, 9, 10, are in west Los Angeles and the western part of the San Fernando Valley (see Figure 1). Areas 9 and 10 also happen to be the Areas with the greatest percentage of Whites, with 53.0% and 59.8% respectively (see Table 11). Area 4 is more mixed, with 42.0% Blacks, 31.5% Whites, and 19.3% Hispanics. The three lowest spending Areas, 2, 6, and 7, are all located in the eastern part of Los Angeles. As Table 11 shows, these three Areas have the highest proportions of Hispanics of all the Areas (69.1% in Area 2, 91.7% in Area 6, and 53.7% in Area 7). Area 7 also has a slightly greater than average proportion of Whites (27.7% as opposed to 23.8% for the area schools as a whole).

Looking at expenditures for each level separately, a similar pattern of highest spending in Areas 4, 9, and 10 holds for the elementary schools and junior high schools. In the high schools, Areas 3, 8, and 4 have the highest spending rates. The absolute differences in spending among the high schools is not as great, however. The lowest spending Areas are 2, 6, and 7 for the elementary schools; and 1, 5, and 7 for the junior high and high schools.

According to Table 10, there is almost a $500 per ADA difference between the highest and lowest spending Areas. Specifying precisely what proportion of this $500 disparity is attributable to legitimate causes such as varying transportation costs and what proportion is attributable to more questionable causes such as underutilized schools cannot be determined from data available to this study; more analysis will be required if the legislature pursues redistricting. However, it is worth noting that, statewide, approximately 75% of the unified districts are within $100 per ADA, higher or lower, of the statewide median expenditure per ADA and that these districts include 93% of the ADA. Thus, if the legislature elected to maintain existing spending levels in newly formed districts, redistricting LAUSD would greatly retard the process of achieving statewide equalization. Immediate equalization of the new districts, however, will produce substantial redistribution of resources among the new districts and possibly cause fiscal crisis in a number of them.

To examine the expenditure patterns in more detail, we also analyzed the within Area variation. To do this, we

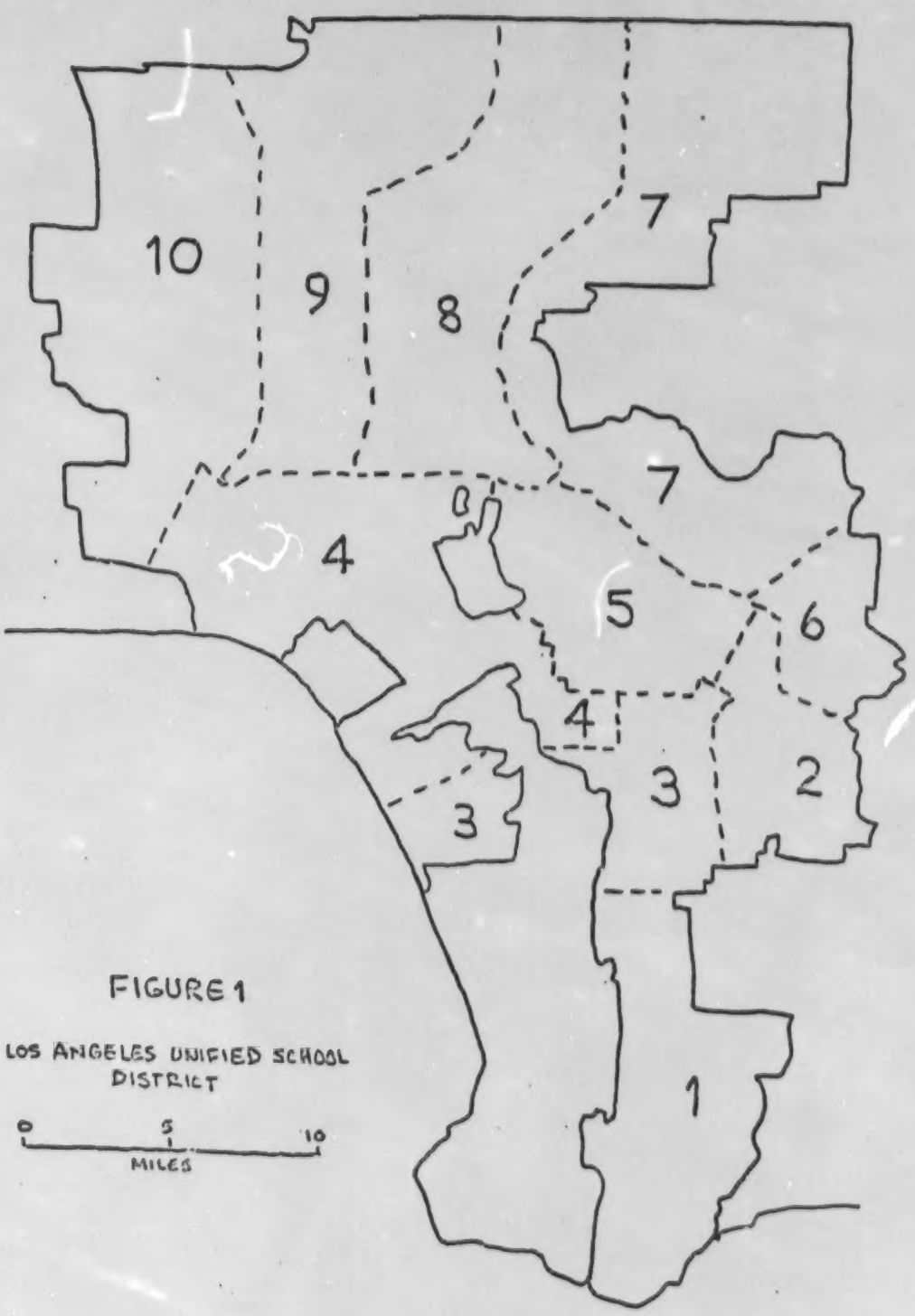

FIGURE 1

LOS ANGELES UNIFIED SCHOOL DISTRICT

Table 11
Pupil Race/Ethnicity in LAUSD Administrative Areas
Fall 1980

Area	Amer. Indian Alaskan Nat.	Black/Not Hispanic	Asian/ Pac. Is.	Hispanic	White/Not Hispanic
1	0.6%	20.5%	14.0%	37.3%	27.7%
2	0.3	23.3	0.9	69.1	6.4
3	0.0	71.8	0.8	22.5	4.9
4	0.4	42.0	6.9	19.3	31.5
5	0.2	26.4	12.8	47.3	13.3
6	0.3	1.5	5.2	91.7	1.4
7	0.6	3.1	14.9	53.7	27.7
8	0.8	11.9	6.5	39.2	41.5
9	0.6	12.0	5.1	29.3	53.0
10	0.7	12.4	5.8	21.4	59.8
AREA SUMMARY	0.4	23.3	7.2	45.2	23.8

Source: LAUSD Research and Evaluation Branch, Racial and Ethnic Survey Fall 1980. Publication No. 390, March 1981.

took all the schools of the three major types (elementary, junior high, and high) and ranked them according to expenditures per pupil. Next we divided each type into three equally sized groups, designating them low, medium, and high spending. We then determined how many low, medium, and high spending schools of each type there were in each Area. The results are shown in Tables 12-14. The total numbers of low, medium, and high spending schools of all levels in each Area were also calculated (see Table 15).

These tables show clearly that the high and low spending schools are not spread out across the district but are concentrated in specific regions. From Table 16 it can be determined that 60.4% of the high spending schools are in only three Areas (4, 9, and 10); and that 65.0% of the low spending schools are in only four Areas (1, 2, 6, and 7). Area 8 is the only one with a roughly even number of low, medium, and high spending schools. Similar patterns are found when the different types of schools are examined separately (see Tables 12-14).

The geographic distribution of the low, medium, and high spending schools is illustrated graphically in Figure 2. It shows clearly that not only are the high and low spending schools concentrated in specific Areas, but the Areas are contiguous. The high spending Areas are clustered on the west (although Area 4 is separated from Areas 9 and 10 by the mountains) and the low spending ones spread along the eastern side of the district. This indicates that it would probably be very difficult to combine high spending schools with low spending ones to create new districts that did not have large disparities on their average expenditures per pupil.

The most important conclusion to be drawn from this preliminary analysis is that a redistricting plan that created new districts similar to the existing Areas would have clear winners and losers. Under existing state law and school finance provisions, the existing spending disparities would eventually have to be phased out. Thus, while it is now legal--and in some instances justifiable--for LAUSD to spend significantly more per ADA in one part of the district than another, these differences would have to be eliminated if LAUSD were broken up into smaller, independent districts. Moreover, unless districts were permitted to raise additional revenue by other means, the changes resulting from expenditure equalization would have different implications for different racial and ethnic groups. The predominantly white areas in the valley and west Los Angeles would, in the long run, have lower expenditures per

Table 12
Low, Medium, and High Spending Elementary Schools by Area
1980-81
(Based on Total Current Direct Expenditures)

Area	Number of Schools				Percent of Schools			
	Low(a)	Medium(b)	High(c)	Total	Low	Medium	High	Total
1	18	20	8	46	12.4	14.2	5.7	10.8
2	20	14	5	39	13.8	9.9	3.5	9.1
3	14	22	9	45	9.7	15.6	6.4	10.5
4	2	13	25	40	1.4	9.2	17.7	9.4
5	11	20	6	37	7.6	14.2	4.3	8.7
6	30	10	2	42	20.7	7.1	1.4	9.8
7	27	13	9	49	18.6	9.2	6.4	11.5
8	14	16	14	44	9.7	11.3	9.9	10.3
9	5	10	28	43	3.4	7.1	19.9	10.1
10	4	3	35	42	2.8	2.1	24.8	9.8
TOTAL	145	141	141	427	100.0	100.0	100.0	100.0

Source: Based on data in LAUSD, Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Low = up to $1374 per ADA.
(b) Medium = over $1374 up to $1693 per ADA.
(c) High = greater than $1693 per ADA.

Table 13
Low, Medium, and High Spending Junior High Schools by Area
1980-81
(Based on Total Current Direct Expenditures)

	Number of Schools				Percent of Schools			
Area	Low(a)	Medium(b)	High(c)	Total	Low	Medium	High	Total
1	6	1	1	8	24.0	4.0	4.0	10.7
2	3	2	2	7	12.0	8.0	8.0	9.3
3	1	4	3	8	4.0	16.0	12.0	10.7
4	0	4	4	8	0.0	16.0	16.0	10.7
5	4	2	1	7	16.0	8.0	4.0	9.3
6	2	3	0	5	8.0	12.0	0.0	6.7
7	5	1	0	6	20.0	4.0	0.0	8.0
8	3	3	3	9	12.0	12.0	12.0	12.0
9	1	3	4	8	4.0	12.0	16.0	10.7
10	0	2	7	9	0.0	8.0	28.0	12.0
TOTAL	25	25	25	75	100.0	100.0	100.0	100.0

Source: Based on data in LAUSD, Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Low = up to $1723 per ADA.
(b) Medium = over $1723 up to $2011 per ADA.
(c) High = greater than $2011 per ADA.

Table 14
Low, Medium, and High Spending High Schools by Area
1980-81
(Based on Total Current Direct Expenditures)

	Number of Schools				Percent of Schools			
Area	Low(a)	Medium(b)	High(c)	Total	Low	Medium	High	Total
1	3	2	0	5	18.8	11.8	0.0	10.2
2	3	0	2	5	18.8	0.0	12.5	10.2
3	1	0	4	5	6.3	0.0	25.0	10.2
4	1	2	2	5	6.3	11.8	12.5	10.2
5	3	1	1	5	18.8	5.9	6.3	10.2
6	1	3	0	4	6.3	17.6	0.0	8.2
7	3	1	0	4	18.8	5.9	0.0	8.2
8	0	3	2	5	0.0	17.6	12.5	10.2
9	1	2	3	6	6.3	11.8	18.8	12.2
10	0	3	2	5	0.0	17.6	12.5	10.2
TOTAL	16	17	16	49	100.0	100.0	100.0	100.0

Source: Based on data in LAUSD, Controlling Division, Controller's Annual Report of Expenditures Classified by Schools for the Fiscal Year Ended June 30, 1981.

(a) Low = up to $1647 per ADA.
(b) Medium = over $1647 up to $1764 per ADA.
(c) High = greater than $1764 per ADA.

Table 15
Low, Medium, and High Spending Schools by Area
1980-81
(Based on Total Current Direct Expenditures)

Area	Number of Schools				Percent of Schools			
	Low(a)	Medium(a)	High(a)	Total	Low	Medium	High	Total
1	27	23	9	59	14.5	12.6	4.9	10.7
2	26	16	9	51	14.0	8.7	4.9	9.3
3	16	26	16	58	8.6	14.2	8.8	10.5
4	3	19	31	53	1.6	10.4	17.0	9.6
5	18	23	8	49	9.7	12.6	4.4	8.9
6	33	16	2	51	17.7	8.7	1.1	9.3
7	35	15	9	59	18.8	8.2	4.9	10.7
8	17	22	19	58	9.1	12.0	10.4	10.5
9	7	15	35	57	3.8	8.2	19.2	10.3
10	4	8	44	56	2.2	4.4	24.2	10.2
TOTAL	186	183	182	551	100.0	100.0	100.0	100.0

Source: Calculated from Tables 11-13.

(a) Low, Medium, and High are as defined in Table 11 for elementary schools, Table 12 for junior high schools, and Table 13 for high schools.

Table 16
Distribution of Low, Medium, and High Spending Schools Within Areas
1980-81
(Based on Total Current Direct Expenditures)

	Number of Schools				Percent of Schools			
Area	Low(a)	Medium(a)	High(a)	Total	Low	Medium	High	Total
1	27	23	9	59	45.8	39.0	15.3	100.0
2	26	16	9	51	51.0	31.4	17.6	100.0
3	16	26	16	58	27.6	44.8	27.6	100.0
4	3	19	31	53	5.7	35.8	58.5	100.0
5	18	23	8	49	36.7	46.9	16.3	100.0
6	33	16	2	51	64.7	31.4	3.9	100.0
7	35	15	9	59	59.3	25.4	15.3	100.0
8	17	22	19	58	29.3	37.9	32.8	100.0
9	7	15	35	57	12.3	26.3	61.4	100.0
10	4	8	44	56	7.1	14.3	78.6	100.0
TOTAL	186	183	182	551	33.8	33.2	33.0	100.0

Source: Calculated from Tables 11-13.

(a) Low, Medium, and High are as defined in Table 11 for elementary schools, Table 12 for junior high schools, and Table 13 for high schools.

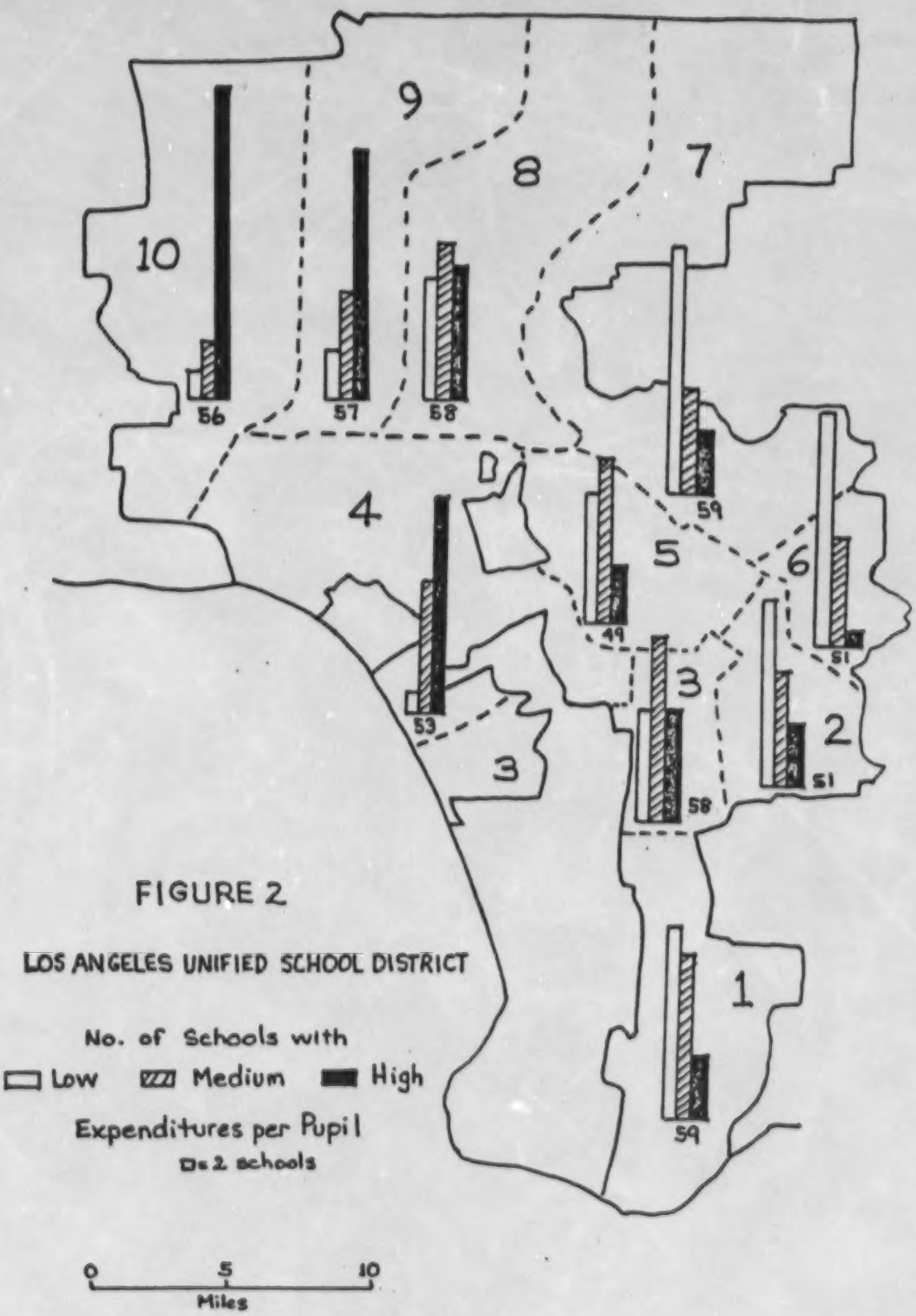

FIGURE 2

LOS ANGELES UNIFIED SCHOOL DISTRICT

No. of Schools with

Low Medium High

Expenditures per Pupil

□= 2 schools

ADA, while the predominantly Hispanic areas in the eastern part of Los Angeles would experience substantial revenue gains. This shift, however, concerns base revenue limit revenues only. Current law does not address differences in physical facilities among districts. Thus, if the newly formed districts assumed full rights to school property within their boudnaries, the new districts with reduced base revenue limit income might be able to offset some of these reductions with revenue generated from the sale or lease of property. Under current law, income from the sale or lease of property does not offset revenue limit income and accrues entirely to the district. (See discussion in Section II).

C. Redistricting to Minimize Interdistrict Inequalities

From the preceeding analysis it is clear that if the existing Area boundaries were used as boundaries for new districts, there would be sizeable differences in the average expenditures per pupil. Since the revenue limits of any new districts would have to be equalized eventually, it would be worth trying to draw the new boundaries to minimize at the outset the differences in expenditures per ADA. The question then becomes: Can alternative boundaries be determined that would create districts with more equal expenditures per ADA than the boundaries of the exisiting Areas?

A thorough answer to this question would require a computer simulation model combining and recombining schools within given constraints (such as distance apart) to find a combination that produced acceptably low interdistrict variation in average expenditures per ADA. Such a model is beyond the scope and resources of this project but would be valuable if redistricting were decided upon.

Nevertheless, with the data available, some conclusions are possible:

1. There is no way to avoid a concentration of high spending schools in the western part of the San Fernando Valley. As Table 16 shows, 78.6% of Area 10's and 61.4% of Area 9's schools have high expenditures per ADA. To lower the average expenditure per pupil in these Areas, some of these schools would have to be paired with low spending schools from other Areas, and there are no Areas with low spending schools nearby.

2. Going to the other end of the district, there is no way to avoid having Area 1 remain a concentration of low spending schools. (Now 45.8% of its schools are low spending). As can be seen in Figure 2, Area 1 is a long, narrow district with only a small part contiguous with the rest of

LAUSD. Of the 10 schools closest to the boundary with Area 3, four are high spending and three are medium spending. Therefore, removing them from Area 1 would only lower the average expenditure per pupil for Area 1.

3. There is no way to avoid having the part of the district now in Areas 2 and 6 remain a concentration of low spending schools. Well over half of the schools in both of these districts are low spending (64.7% in Area 6 and 51.0% in Area 2), and there are no contiguous Areas with a surplus of high spending schools.

4. No improvement in the balance of low, medium, and high spending schools in Areas 3 and 4 would be achieved by adding to Areas 4 the western part of Area 3 that is contiguous with Area 4 now. The schools in that part of Area 3 are all high spending, so adding them to Area 4 would only exacerbate the disparity between these two Areas. However, the section of Area 4 that is close to Area 3 (see Figure 2) contains 6 high spending elementary schools. If some or all of these were added to Area 3, the discrepancy in the average expenditure levels of these two Areas would be somewhat reduced.

5. An examination of Figure 2 suggests the possibility that the part of LAUSD now covered by Areas 7 and 8 could be redistricted in such a way that the differences in the average expenditures per pupil could be reduced. Looking at the actual expenditures per pupil of some of the schools, however, makes this seem less feasible. The elementary schools in the northern part of Area 7 are all high spending, so it would not make sense to cut off that part of Area 7. There are some low spending schools in the middle section of Area 7, but they could not be added to Area 8 without cutting Area 7 into two parts or else taking the high spending schools away too.

In short, it would be virtually impossible to break up LAUSD into smaller, independent districts without creating districts with significant spending disparities among them. This would be the case regardless of whether one used boundaries of existing Areas or determined new district boundaries. Because of the large size of the existing Areas (36-65,000 pupils), creating new districts larger than the existing Areas simply to reduce expenditure disparities is impractical; not only would any advantages of smaller sized districts be lost but also there would no longer be any incentive to attack a major cause of expenditure disparities--small schools. Nor would creating a larger number of smaller districts solve the problem of spending disparities. Because of the way the schools are distributed within the Areas, such an approach would only exacerbate the inequalities.

Consequently, if a decision is made to redistrict LAUSD, policy makers must be prepared to deal with these inequalities. If they wish to minimize the inequalities before establishing new districts, some way other than manipulating boundaries will have to be found. One possibility would be require closing small schools, not only in LAUSD but in all districts throughout the state. A second possibility would be to require mandatory transfer of teachers in LAUSD. This would reduce some of the inequalities among districts, because disparities in teacher salaries have been shown in other studies to be a major reason for spending differences among schools (see Bernard R. Gifford, Towards a Workable Remedy: Maximizing Integrated Educational Settings and Equalizing Resource Allocation Policies in the Los Angeles Unified School District -- A Response to the Crawford Mandate. Report to Judge Paul Egly, Superior Court of Los Angeles County, Novemer 1978). While tranferring teachers would reduce inequalities, it might be undesirable or impractical for other reasons. Teachers are not likely to react favorably to such a policy. However, before any final recommendations can be made, a detailed examination of the reasons for the spending disparities would have to be undertaken.

D. Racial/Ethnic Implications of Redistricting to Minimize Per Pupil Expenditure Inequalities

The final question to be addressed is: If new districts were created to try to minimize per pupil expenditure differences, what would be the impact on the racial/ethnic composition of the new districts? Since we were unable to develop a redistricting scheme that would result in only small differences in per pupil expenditures, this question cannot really be answered.

Nevertheless, a few comments on race/ethnicity and expenditures are appropriate here. Table 11 shows that the existing Areas are not racially balanced now. Our analysis showed that the highest spending Areas had relatively high concentrations of Whites, while the lowest spending Areas had relatively high concentrations of Hispanics. We could therefore conclude that any attempt to equalize expenditures among these areas would result in a redistribution of resources from Whites to Hispanics.

Since LAUSD has been under a court order to desegregate its schools, any redistricting plan must deal with the issue of desegregation quite apart from the financial implications of redistricting. At this point we can only say that if redistricting is seriously pursued as an option for LAUSD, analysis of racial/ethnic data and financial data should be done together so that the impact of desegregation plans on spending inequalities and the impact of redistributing resources on various racial and ethnic groups can be monitored.

IV. SUMMARY AND CONCLUSIONS

The primary purpose of this study was to address two broad questions:

(1) Is there a fiscal rationale for redistricting LAUSD?

(2) What would be the fiscal implications of redistricting?

In attempting to answer the second question, it became clear that redistricting would require redistribution of funds within what is now LAUSD. Thus in order to fully understand the fiscal implications of redistricting, a third important question had to be addressed:

(3) What are the current expenditure patterns within LAUSD?

In this final section, we summarize our answers to these questions and present our conclusions.

A. Is There a Fiscal Rationale for Redistricting?

The two major fiscal arguments that have been advanced as reasons for redistricting LAUSD are: 1) that LAUSD's political power in the legislature results in the district's securing more than a proportionate share of the public resources devoted to education; and 2) that extremely large districts are inherently inefficient and should be replaced by smaller districts closer to some optimal size for school districts.

With respect to the first argument, we do not find very strong evidence of an overconcentration of political power in LAUSD siphoning educational resources away from other districts. To the extent that LAUSD has fared better than other districts, it has been because the district has been eligible for mandated cost assistance for its desegregation program. LAUSD's share of general purpose revenues is very close to its shares of ADA and enrollment. With respect to special purpose revenues other than mandated costs, it could even be argued that LAUSD receives a disproportionately small share considering its proportion of eligible students.

It is clear, however, that LAUSD has benefited greatly from receiving funds for mandated costs. In 1979-80, the district received approximately $121 million (over 80 percent of total state funds allocated for this purpose).

Nevertheless, the district played a relatively minor role in the passage of the enabling legislation. It is therefore difficult to conclude that LAUSD has used its political clout to gain favorable treatment.

In conclusion, breaking up LAUSD would not be an effective way to free resources for other districts. If the legislature wishes to achieve such a goal, dealing directly with mandated costs would be more appropriate.

We also find little evidence to support the argument that LAUSD is too big to be efficient and should be replaced with smaller districts closer to some optimal size. The many studies on economies of scale in schools and school districts have yielded inconclusive results. There are theoretical reasons for expecting very large and very small districts to be less efficient than medium sized ones, but the ranges over which economies and diseconomies have been found vary too much for there to be any agreement on an optimal size. It is true that LAUSD's per pupil expenditures for maintenance and administration are higher than the statewide average. However, it is difficult to say to what extent this is because of the district's large size and to what extent it is due to its urban character, high concentration of students with special needs, and older facilities, or both. Direct comparisons with other districts are difficult, but the fact that Oakland, only one tenth of LAUSD's size, but with similar problems, has similar per pupil expenditures for maintenance and administration suggests that size may not be the most important factor. In short, we are skeptical of attributing inefficiency to large size alone.

Nevertheless there are some serious concerns about the way LAUSD manages its resources. We describe these briefly here and consider whether redistricting would be likely to help solve these problems.

A major concern is that LAUSD operates a large number of very small schools in some parts of the district while there is serious overcrowding in others. The per pupil administrative cost of operating small schools is much greater than for larger ones. It can therefore be argued that it is inefficient (and also inequitable) to operate so many small schools (118 of the 427 elementary schools have fewer than 500 pupils), especially when resources are needed elsewhere to relieve overcrowding.

Would redistricting change this? Not necessarily, if underutilization exists because of local opposition to school closings. It can, however, be argued that the district is able to divert resources from other areas or functions to cover the high costs of small schools only because it is very large. If this is true, redistricting

might increase efficiency by forcing new smaller districts to close at least some of the small schools.

LAUSD has also been accused of excessive administration. While an exhaustive examination of the charge was beyond the scope of this study, available data suggest that to the extent there is excessive administration in LAUSD, it appears to be located mainly at the school site and to result from school level coordination of special programs. This is a serious problem, but one that can be addressed directly through changes in staffing requirements for these programs. There is no reason to believe that redistricting per se would bring automatic improvement.

It is our conclusion that the primary benefit of redistricting LAUSD would be that it would force the redistribution of financial resources in a way that would lead to a more equitable, and potentially more efficient, distribution of resources. As described in Section III, there is wide variation among schools in expenditures per pupil, particularly in the elementary schools. Moreover, the high and low spending schools are not randomly distributed throughout the district. Schools with high expenditures per ADA are concentrated in the San Fernando Valley and West Los Angeles, and schools with low expenditures per ADA are concentrated in the downtown area. Consequently, any redistricting plan would result in the creation of districts with unequal revenues. Under the restrictions imposed by the state Supreme Court in Serrano vs. Priest, these revenues would have to be equalized, either immediately or within a few years. The result would be a significant shifting of resources from the high spending to low spending areas.

This redistribution would clearly lead to greater equity. While the link between expenditures and quality of education is still being debated, current state law is clearly directed at equalizing expenditures among districts. With the state worrying about interdistrict differences in spending of $100 per pupil among districts with only a few thousand enrolled, it seems inequitable to ignore the substantial intradistrict disparities that exist within LAUSD.

There is reason to hope that such a redistribution of resources, in addition to increasing equity, would also lead to greater efficiency by forcing the closure of excessively small schools. One reason it has been possible to keep these schools open is by counterbalancing them with overcrowded schools in other areas. If smaller, independent districts were created, this would be much harder to do.

To summarize, if redistricting is to be pursued, the fiscal justification for it must rest on concerns about the efficiency and equity with which intradistrict resource allocation is done rather than on the inherent inefficiency of large districts or their political power at the state level. An important question is therefore whether any redistribution of resources could be effected without the drastic step of redistricting. In theory it could, and the possibility of doing so should be explored. Finally, fiscal equity and efficiency are only two factors to consider when evaluating the pros and cons of redistricting. We could not recommend redistricting on the basis of them alone.

B. Fiscal Implications of Reorganization

If LAUSD were to be redistricted, the two major problems would be how to distribute revenues for current operating expenditures and how to distribute existing assets and liabilities. In each case, there are a number of options, each of which would yield quite different results.

Current operating expenses are covered mainly by funds received through the district's base revenue limit. In 1980-81, LAUSD had a base revenue limit of $1785 per ADA. If new, independent districts were created, the legislature would have three options: 1) set the base revenue limits for the new districts equal to the base revenue limit for LAUSD; 2) set the limits equal to current expenditures per ADA and equalize over time; and 3) draw new district boundaries to minimize spending disparities, set the base revenue limits equal to the highest spending districts, then provide the additional revenue needed to bring the other districts up to the new limit.

Adjustments to the base revenue limit are generally associated with schools or pupils and would therefore cause no problem. They would simply follow them to the new districts. The one exception is mandated costs. Since these are tied to LAUSD's integration program, how these funds would be distributed, or even if they would be available, are important questions needing further study.

In practice, any of the options for distributing operating expenses described above would result in a major redistribution of funds within LAUSD. There is wide variation among schools in total current expenditures per ADA. For example, for elementary schools, expenditures per ADA in 1980-81 ranged from as little as $1030 to as much as $3470, with a median of $1494. Because the high and low spending schools are not evenly distributed throughout LAUSD, it is not likely that new districts with equal spending levels could be created.

Each approach to setting base revenue limits has advantages and disadvantages, and in each case there would be relative gainers and losers. Nevertheless, the drawbacks do not necessarily preclude redistricting as an alternative. Simple equalization would shift considerable resources from the valley and west Los Angeles, but might be acceptable to these areas if the losses were offset by revenues from sale or lease of underutilized schools, or if they were permitted new local taxing power for education. Setting revenue limits equal to existing spending and equalizing over time might be feasible if sound educational ressons for redistricting could be established and disparities in the new limits minimized. Leveling up low spending areas might be possible without large increases in state spending depending on what is done with resources used for revenue limit adjustments and categorical aid.

If the legislature decides to pursue redistricting, a much more detailed analysis of current expenditure patterns than could be done for this study is needed before a decision could be made on how to set the new limits. Simulation of the impact of using alternative boundaries would also be important.

The distribution of assets and liabilities is another issue that would require a great deal of investigation. The liabilities are actually quite small; assets, on the other hand, are very large. While data on the current market assets have not been compiled, it is evident that the value of the real property held by the district depends on location, age, and physical condition, and that these attributes are not evenly distributed geographically.

One approach would be simply to allocate real property to new districts based on wherever it happened to be. This would not only make some districts wealthier than others, but would also give some districts relatively high concentrations of older buildings needing repairs and having higher maintenance costs.

Another approach, one that seems to have a number of advantages, would be to create a special district responsible for managing all the real property. The special district could lease facilities, maintain the property, and manage sales and new construction. Such a special district would also simplify retiring existing debt.

C. Conclusions

The following are the major conclusions drawn from our analysis of the fiscal issues concerning redistricting LAUSD:

(1) Redistricting LAUSD would not necessarily reduce the amount spent for LAUSD schools. Therefore there is no guarantee that redistricting would free resources for other school districts in the state.

(2) There is no agreed upon optimal school district size to use as a guide for assessing whether LAUSD is simply too big to operate efficiently.

(3) Redistricting would almost inevitably require substantial redistribution of financial resources within what is now LAUSD. This might occur immediately or over time, depending on how the base revenue limits were set, but eventually any new districts would have to receive equal revenue. The resulting increase in fiscal equity could be used as an argument for redistricting.

(4) This redistribution of financial resources would take resources away from schools in the San Fernando Valley and West Los Angeles and give them to schools in the downtown area. This might force the areas with underutilized schools to close small schools and thus operate more efficiently.

(5) Redistribution of real property would be difficult, but not an insurmountable problem. If it were distributed simply according to current location, some districts would inherit predominantly aging, overcrowded facilities with high maintenance costs, while others would receive newer, underutilized ones, some of which could potentially be leased or sold to generate income. The areas that would benefit from this method of distributing real property are the ones that would lose current revenues. Negotiations involving both types of resources as a package might produce a politically acceptable solution. Another alternative would be to create a special district to manage real property.

(6) Redistricting could offer substantial gains in fiscal equity and could possibly improve efficiency. It therefore deserves serious consideration.